

October 2015

# THE FAMILY ADVANTAGE

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The Sustainable  
Outperformance  
of Canadian  
Family-Controlled  
Public Companies





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**FAMILY COMPANY INDEX CREATED BY:**

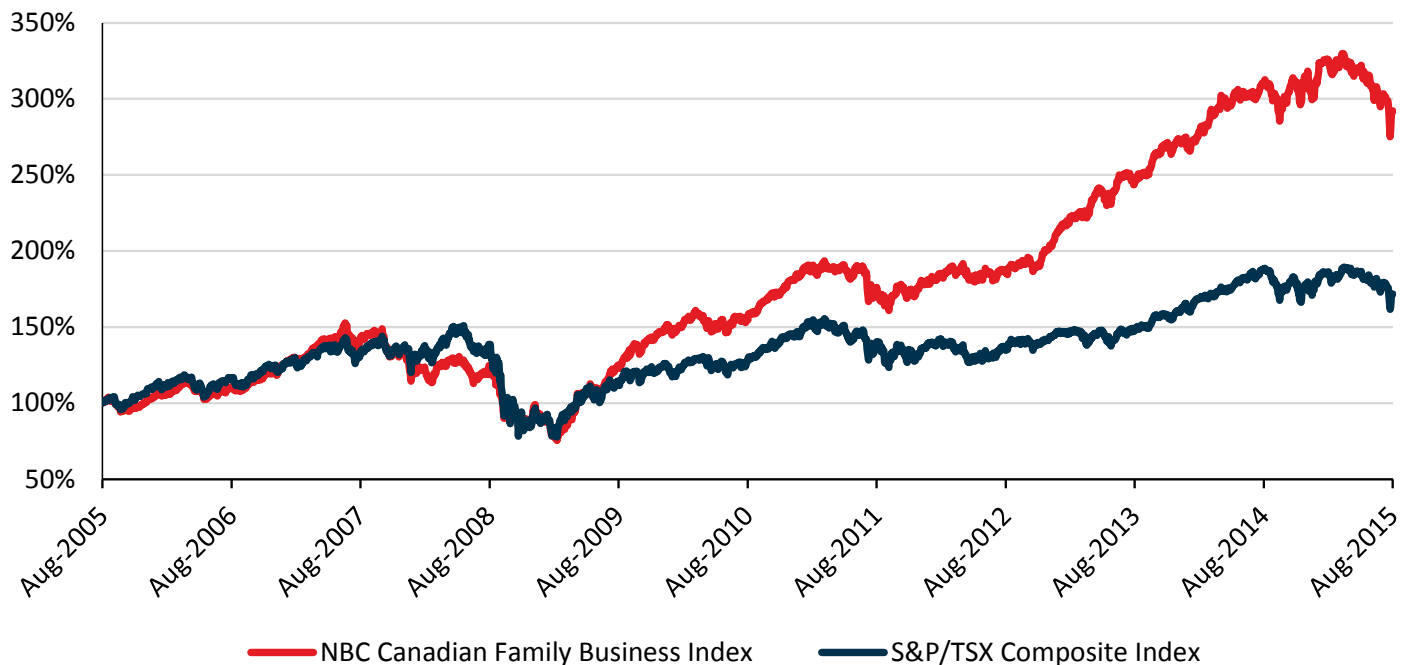
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# The Sustainable Outperformance of Canadian Family-Controlled Public Companies

## Executive Summary

- ▶ Family-controlled firms are a crucial pillar of the global economy, accounting for about 80% of companies worldwide. Contrary to conventional wisdom, the larger public family firms have continued to thrive despite the rise of widely-held public corporations run by professional managers. They currently represent close to a fifth of the companies in the Fortune Global 500. Moreover, the evidence indicates that large family-controlled businesses returns have on average outperformed widely-held companies in many countries.
- ▶ Global and Canadian family firms have been able to exploit many of the unique and inherent advantages of family control. The most important of these advantages is undoubtedly the focus on long-term sustainable profitability, compared with many of their widely-held competitors who have by necessity operated with a shorter-term perspective. This has led most family companies to allocate capital more effectively, and generally with lower risk. Longer-term tenures for senior management, superior branding and reputation, the ability to make quicker decisions and the loyalty of employees are some of the other factors which contribute to the outperformance of family firms.
- ▶ In order to sustain their performance in the long term, family firms must successfully navigate a number of key challenges, including the transition of power to new generations of family members and/or professional managers, ensuring high standards of governance and transparency, and the need for a strong and independent board of directors. While large Canadian family firms have generally been successful facing up to these issues, they will remain permanent and ongoing challenges in the environment in which they operate.
- ▶ The proprietary NBC Canadian Family Business Index highlighted in this report shows that Canadian family-controlled public companies have similarly outperformed. Over the last 10 years, large Canadian family-controlled public companies have outperformed the S&P/TSX Composite Index by 120%.



# Introduction

For decades, management gurus and others have predicted the demise of family-controlled firms. Defying all odds, family firms have not only remained a crucial component of the global economy, but have mostly and significantly outperformed widely-held companies in many countries. In this report, using a proprietary index, we will show that Canadian family-controlled public companies have similarly outperformed. We will also highlight some of the factors that explain why family firms outperform and the conditions required to sustain and enhance performance, with a particular focus on the Canadian landscape.

Generally speaking, in order for a company to be considered family-controlled, the family must own enough of the company to have significant influence to render decisions in regard to important matters such as the choice of the CEO and the company's long-term strategic direction. In the case of large publicly-listed firms, families often exercise ownership control via equity that carry multiple votes for each single share. Estimates of the minimum percentage of the voting stock needed to ensure publicly-listed family-control range anywhere from 5% to 30%.

## 1. Family-Controlled Businesses: A Global Perspective

Until recently, there was a broad consensus that family companies were better suited to past eras. This is because these types of businesses “provided two of the most important ingredients of growth, trust and loyalty, in a world where banking and legal institutions were often rudimentary and poor communications made far-flung activities hard to control.”<sup>1</sup>

The conventional wisdom was that in a modern rules-based economy, family-controlled businesses would be pushed to the margins by the rise of public corporations owned by diverse shareholders and run by professional managers. It was thought that these professionally-run public firms would have a greater capacity to raise capital, attract highly qualified workers and earn higher profits. But, as illustrated in this report, these predictions have vastly underestimated the ability of a large number of family firms to not only survive, but to thrive and prosper.

Another popular misconception has been to overly associate family businesses with small neighbourhood “mom and pop” stores, and thus overlook the key role large

family-controlled corporations play in the global economy, such as BMW (Germany), Walmart (U.S.), Samsung (South Korea) and Foxconn (Taiwan).

### The significant global presence of family-controlled companies

Family-controlled firms are a crucial part of the global economy, accounting for about 80% of companies worldwide.<sup>2</sup> They range in size from the smallest of businesses to the world's largest corporations. The global consulting firm McKinsey estimated in 2014 that family-controlled firms accounted for 19% of the companies in the Fortune Global 500, which tracks the world's largest firms by sales. That is up from 15% in 2005. McKinsey defines such companies as ones in which the family has at least 18% ownership or voting equity in the company and the power to nominate the CEO. Of the U.S. firms in the Fortune Global 500, 15% are family-owned, slightly less than in 2005. As for Europe, 40% of its Fortune Global 500 companies are family-controlled.<sup>3</sup>

As the following charts illustrate, large family-controlled companies have an even more significant presence in the developing world. Approximately 60% of private-sector companies in the developing world with revenues of \$1 billion or more were family-controlled in 2010. By 2025, McKinsey forecasts that developing world companies will be the driving force behind its forecast that family-controlled firms will represent nearly 40% of the world's companies with revenues of \$1 billion or more, up from 15% in 2010.<sup>4</sup>

The strong presence of family-controlled companies in much of the developing world is in stark contrast to most expectations following the 1997-98 Asian Financial Crisis. Many believed that controlling families would have little choice but to loosen their grip on their businesses.

<sup>1</sup> “To have and to hold”, *The Economist*, April 18, 2015

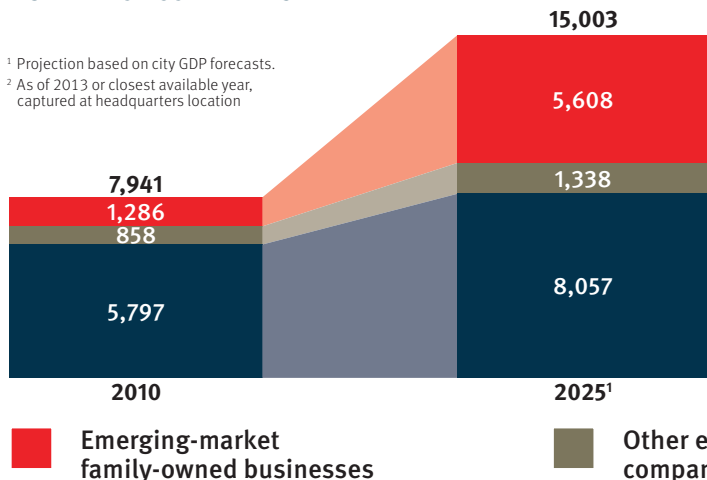
<sup>2</sup> “Leadership Lessons from Great Family Businesses”, *Harvard Business Review*, April 2015

<sup>3</sup> “Business in the blood”, *The Economist*, Nov. 1, 2014

<sup>4</sup> “The family-business factor in emerging markets”, McKinsey & Company, December 2014

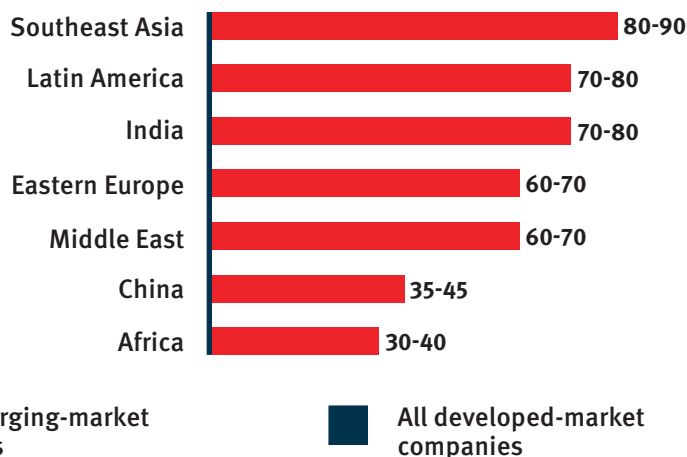
## Companies with $\geq$ \$1 billion in revenue

### NUMBER OF COMPANIES



Source: "The family-business factor in emerging markets," McKinsey & Company, December 2014

## Share of large companies that are family owned<sup>2</sup> %



## The competitive advantages of family-controlled businesses

The main strengths of family firms, which we will examine in more detail in Section 4, include the ability to resist market pressures to increase short-term profits in favour of long-term investments that will pay off over several years or even for future generations.

The often intense pressure on executives to meet short-term profit targets was brought into sharp focus by a 2013 survey of over 1,000 executives from various countries and sectors done by McKinsey and the Canadian Pension Plan Investment Board. Seventy-nine percent of the executives surveyed said they felt significant pressure to produce results within two years or less. Sixty-three percent felt that pressures to meet short-term financial targets had increased over the past five years. Finally, and perhaps most revealing, a majority of executives said they would choose not to make an investment to increase their profits by 10% over three years if it meant missing quarterly earnings.<sup>5</sup>

## The challenge of aligning the interests of shareholders and managers

One of the biggest challenges facing widely-held public companies is ensuring that managers act in the company's best interests, as opposed to their own self-interests. In the past, many corporate governance experts have argued that the best way to align the interests of the shareholders and managers was to get managers to think more like owners by giving them stock options. While this sounded good in theory, it often only increased the motivation of managers to opt for short-term measures that would quickly boost stock prices at the expense of long-term profitability and sustainability.

In contrast, family-controlled firms are run by people who wish to pass the company on in good shape to the next generation and who thus tend to be much more motivated to hold key managers to account. For the same reason, family ownership also increases the motivation to invest the necessary time and resources to improve long-term performance.

## Lower leverage

Research published by the Boston Consulting Group and Harvard Business Review have found that large family-controlled firms are generally much more effective in keeping debt levels under control than their widely-held

counterparts.<sup>6</sup> As we will demonstrate in chapter 3, this has also been the case in Canada. This is in large part due to the fact that they tend to be much more selective with regard to large capital expenditures and/or takeovers. Family-controlled firms are more likely to associate higher debt levels with risk as opposed to viewing it as a strategy to maximize value creation. This makes them much more cautious when it comes to approving large capital expenditures. Family ownership also puts many of these firms in a better position to resist pressure from activist investors to spend their savings, or what they called "dead capital". This generally cautious view regarding debt levels has left many family-controlled firms in a much better financial position to weather significant economic downturns, such as the recent 2008 financial crisis, a period in which cash became king.

## Lower employee turnover

Family-controlled companies also have relatively low employee turnover rates, which allows them to benefit from their employees' greater experience and dedication. While the average tenure of CEOs in large U.S. companies is 4.6 years, those currently in charge of one of the 100 largest family businesses have already served an average of 13 years.<sup>7</sup>

<sup>5</sup> "Focusing Capital on the Long Term", Canadian Pension Plan and McKinsey & Company, Dec. 26, 2013

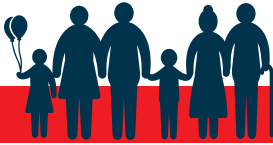
<sup>6</sup> "What You Can Learn from Family Business", Harvard Business Review, November 2012

<sup>7</sup> "Four Lessons Firms Can Learn From Family Businesses", Forbes, April 30, 2015

## 2. The Contribution of Family-Controlled Businesses to the Canadian Economy

Family-run businesses are the cornerstone of the Canadian and U.S. economies. Some 90% of companies in Canada are estimated to be family-owned.<sup>8</sup>

### The importance of family businesses in North America



90%

of the companies in North America are family-owned businesses.

**Employ** 57% of North America's workforce (more than 97 million employees)

**Generate** 57% of the United States' GDP  
60% of Canada's GDP

**Create** 70% of all new jobs in North America

**Provide** 55% of all charitable donations

Source: "Family business in North America: Facts and figures," EY Family Business Yearbook, 2014

This includes a significant presence in larger businesses. Indeed, to a great extent Canada's business landscape has been shaped by family-controlled companies that arose from humble origins to become powerful national firms. Below are just a few examples:

- Alimentation Couche-Tard has been one of the few Canadian retailers to establish a strong international presence. Through series of well-executed M&A transactions it has achieved an average compounded annual sales growth rate of 15.7% over the past 10 years.
- ATCO was founded in the late 1940s by Ronald Southern and is now involved in structures and logistics, utilities and energy infrastructure (electricity and gas), counts 9,000 employees and operates on five continents.
- Bombardier stands out as one of the most spectacular family-controlled growth stories in Canada. In 1937, the company's founder, Joseph-Armand Bombardier, obtained his first patent for the development of a snow tracked vehicle in Valcourt, Québec. Today it is a global diversified transportation company evolving in the rail and aerospace industries.
- Canadian Tire Corporation went from one store in 1922 in Hamilton, Ontario to over 1,700 retail and gasoline outlets and 85,000 employees.
- Cascades, the packaging and tissue products manufacturer was founded by the Lemaire brothers in 1964 in Québec. It has since grown to employ over 11,000 people with 90 locations in North America and Europe.
- CGI holds an enviable place among family-firm success stories. Serge Godin and André Imbeau founded CGI in 1976. Through multiple acquisitions, it has become a large global IT company with 85% of its revenues outside of Canada.
- George Weston was founded in 1882 and is currently led by W. Galen Weston, the grandson of the founder. Loblaw Companies (George Weston's main subsidiary) is currently led by Galen G. Weston, the great grandson of the founder. With over 200,000 staff and 2,300 stores, Weston is one of Canada's largest private sector employer.
- The Jean Coutu Group started with one pharmacy in Montreal in 1969, and currently has over 400 stores throughout Québec, New Brunswick and Ontario.
- Molson Coors Brewing Company was founded in 1786 by John Molson, and has gone through seven generations of family ownership. In 2005, Molson and Coors families merged both businesses in a merger of equals.
- Power Corporation of Canada, the Desmarais family business empire, began with the purchase of a single Ontario bus line in 1951. Today the family controls this massive conglomerate, with major holdings in the life insurance, mutual fund and asset management sectors.
- Saputo went from one small cheese factory in Montreal in 1954 to become the largest dairy product company in Canada and one of the top 10 in the world, with approximately 12,000 employees, and exports to more than 40 countries.
- Sobeys (Empire's main subsidiary) grew from a small meat delivery business in Nova Scotia in 1907 to become the second-largest grocer in the country with over 1,500 stores across Canada.
- Thomson Reuters is the world's leading source of intelligent information for businesses and professionals. With its headquarters in New York and major operations in London and the US, the company employs more than 57,000 people. Woodbridge Inc. (controlled by the Thomson Family) owns 55% of equity.

<sup>8</sup> "Family business in North America: Facts and figures", EY Family Business Yearbook, 2014

According to the Creaghan McConnell Group, Canadian companies controlled by the 500 wealthiest business families accounted for 23% (or \$313 billion) of the revenue of all medium and large businesses in 2013. These firms also accounted for 15% (or 1.6 million) of all private sector jobs. Finally, 10 of Canada's 25 largest employers are family-controlled.<sup>9</sup>

Canada also has more than its fair share of the world's largest family companies. According to the Global Family Business Index, 20 of the world's 500 biggest family-controlled firms based on revenue are Canadian. The 20 are listed below. To be included in this list published by Ernst & Young and Switzerland's University of St. Gallen, the family must control at least 50%

of the voting rights for a private firm, or 32% of the voting rights for a public one.<sup>10</sup>

## The 20 Canadian family-controlled private and public firms included in the Global Family Business Index

RANK	GLOBAL RANK	COMPANY	FAMILY	NET WORTH
1	37	George Weston Ltd.	Weston	\$11.3 billion
2	43	Power Corp. of Canada	Desmarais	\$5.5 billion
3	54	Husky Energy	Li	\$32.2 billion
4	66	Empire Co. Ltd.	Sobey	\$2.9 billion
5	74	Bombardier Inc.	Bombardier	\$2.4 billion
6	114	Thomson Reuters	Thomson	\$30.7 billion
7	118	Rogers Communications Inc.	Rogers	\$7.4 billion
8	125	Canadian Tire Corp.	Billes	-
9	169	Saputo Inc.	Saputo	\$6.2 billion
10	207	Jim Pattison Group Inc.	Pattison	\$7.8 billion
11	259	McCain Foods Group Inc.	McCain	\$7.4 billion
12	269	Kruger Inc.	Kruger	\$1.7 billion
13	272	Shaw Communications Inc.	Shaw	\$2.0 billion
14	308	James Richardson & Sons Ltd.	Richardson	\$5.0 billion
15	309	ATCO Ltd.	Southern	\$2.1 billion
16	322	Quebecor Inc.	Péladeau	\$1.0 billion
17	353	Cascades Inc.	Lemaire	-
18	371	Samuel, Son & Co Ltd.	Samuel	\$1.5 billion
19	475	The Jean Coutu Group Inc.	Coutu	\$3.2 billion
20	491	Ellisdon Holdings Inc.	Smith	-

Source: "The 20 Biggest Family-run Businesses in Canada", *Canadian Business*, June 8, 2015

<sup>9</sup> "Business Families: building a brighter future", Creaghan McConnell Group, 2014

<sup>10</sup> "The 20 Biggest Family-run Businesses in Canada", *Canadian Business*, June 8, 2015

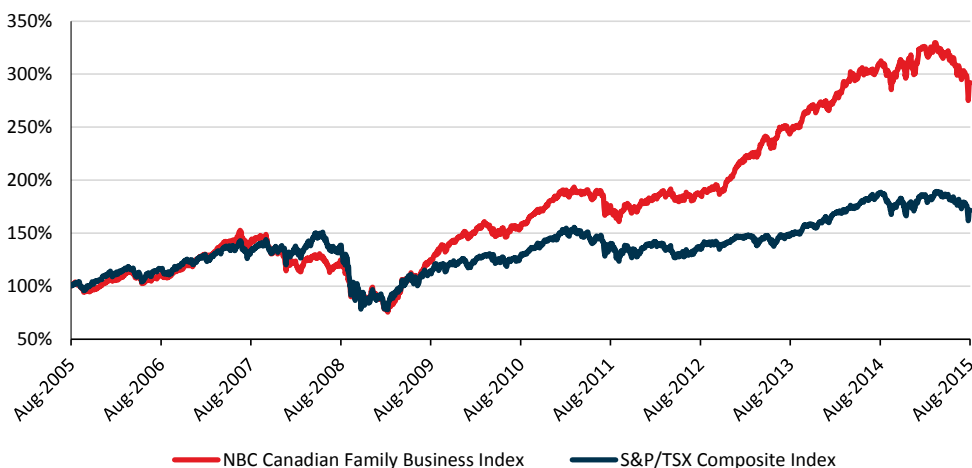
# 3. The NBC Canadian Family Business Index: Strong Outperformance

NBC created an index for the purpose of tracking and measuring the performance of Canadian family-controlled businesses versus the performance of the S&P/TSX Composite Index. The index includes 30 selected Canadian family-controlled businesses across different industries and regions of the country. The results highlighted by the index demonstrate the exceptional outperformance of Canadian family-controlled public companies compared with widely-held Canadian public companies.

## Sustainable outperformance<sup>11</sup>

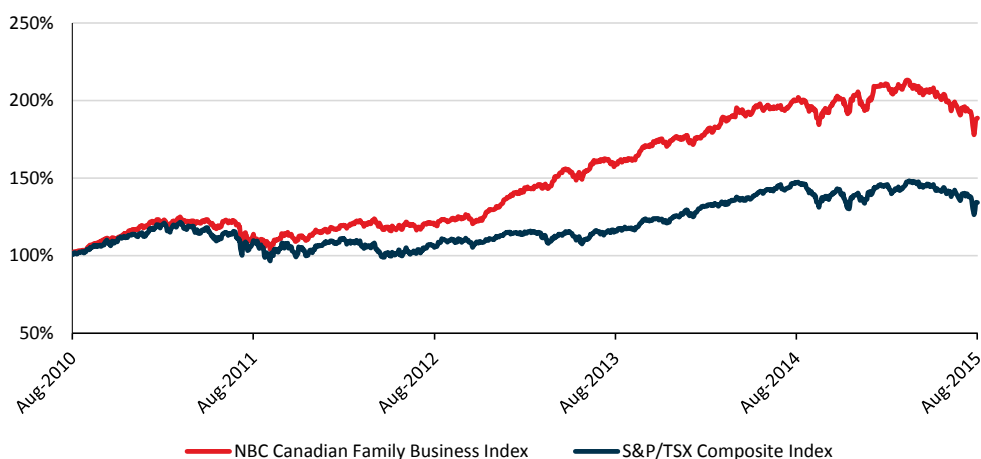
### Returns of the NBC Canadian Family Business Index compared with the S&P/TSX Composite Index over a 10-year period:

- ▣ Outperformance of 120.3% over the period. Total returns of 192.0% for the index vs. 71.7% for the S&P/TSX Composite Index
- ▣ On an annualized basis, returns of 11.3% for the index vs. 5.6% for the S&P/TSX Composite Index



### Returns of the NBC Canadian Family Business Index compared with the S&P/TSX Composite Index over a five-year period:

- ▣ Outperformance of 54.4% over the period. Total returns of 88.7% for the index vs. 34.3% for the S&P/TSX Composite Index
- ▣ On an annualized basis, returns of 13.5% for the index vs. 6.1% for the S&P/TSX Composite Index



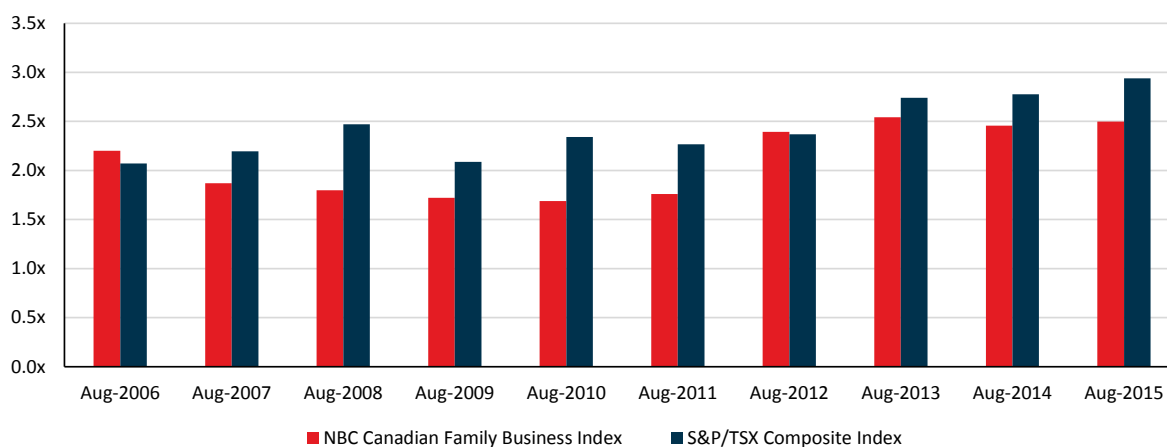
<sup>11</sup> The returns presented are backtested performance based on simulated index data between August 2005 and August 2015.

## Conservative capital structure

Moreover, based on publicly available financial information for family firms, family-controlled businesses tend to have a more conservative capital structure. Businesses included in the NBC Canadian Family Business Index have an average ratio<sup>12</sup> of 2.5x net debt/EBITDA vs.

3.0x net debt/EBITDA for the S&P/TSX Composite Index companies as at Aug. 31, 2015. Over the last 10 years, the leverage of family businesses was lower than for the S&P/TSX Composite Index average eight years out of 10.

## Ratio of net debt to EBITDA over the last 10 years: NBC Canadian Family Business Index compared with S&P/TSX Composite Index<sup>13</sup>



## The definition of a family-controlled business

Family-controlled businesses are defined as businesses whose long-term strategy, planning, and decisions are under the significant influence of family members and relatives.

In selecting the companies to be included in the NBC Canadian Family Business Index, NBC used the following criteria:

- ▣ Generally holds 25% or greater voting power; and/or
- ▣ Family has significant influence over management by holding key management positions or by having a significant influence on the board of directors; and/or
- ▣ Family members are in a position to succeed to the next generation owner/founder or have the power to name the CEO.

These criteria are used to identify significant family influence, but companies don't have to comply with all three criteria, and can be defined as family businesses as long as the family possesses significant influence over long-term strategy.

Even if generally speaking more voting power means more influence, in some situations the family might have significant influence over the long-term strategy of the business, even though it controls far less than 50% of the votes. This is the case when the family holds key management positions or key roles on the board of directors, and is deeply involved in overseeing management planning and implementing long-term strategy.

<sup>12</sup> Source: Capital IQ. Equal-weighted average of companies over 10 years as at August 31. Outliers defined as being negative ratios or ratios >10.0x were excluded from the average.

<sup>13</sup> Source: Capital IQ. Equal-weighted average of companies over 10 years as at August 31. Outliers defined as being negative ratios or ratios >10.0x were excluded from the average.

## The selection criteria

NBC selected 30 Canadian family-controlled public companies based on the above criteria for its Canadian Family Business Index. Additionally, companies were selected to cover a wide

range of industries and regions across Canada, and to include smaller market capitalizations, such as AGF Management Limited (TSX:AGF.B), as well as larger ones, such as Thomson Reuters Corporation (TSX:TRI).

## List of the 30 companies included in the NBC Canadian Family Business Index

	COMPANY	FAMILY	INDUSTRY	REGION
1	AGF Management Limited (TSX:AGF.B)	Goldring	Financials	Ontario
2	Alimentation Couche-Tard Inc. (TSX:ATD.B)	Bouchard, D'Amours, Fortin, Plourde	Consumer Staples	Québec
3	ATCO Ltd. (TSX:ACO.X)	Southern	Utilities	Alberta
4	BMTC Group Inc. (TSX:GBT)	Des Groseillers	Consumer Discretionary	Québec
5	Bombardier Inc. (TSX:BBD.B)	Bombardier, Beaudoin	Industrials	Québec
6	Canadian Tire Corp. Ltd. (TSX:CTC.A)	Billes	Consumer Discretionary	Ontario
7	Canam Group Inc. (TSX:CAM)	Dutil	Materials	Québec
8	Cascades, Inc. (TSX:CAS)	Lemaire	Materials	Québec
9	CCL Industries Inc. (TSX:CCL.B)	Lang	Materials	Ontario
10	CGI Group, Inc. (TSX:GIB.A)	Godin, Imbeau	Information Technology	Québec
11	COGECO INC. (TSX:CGO)	Audet	Telecom/Media	Québec
12	Dundee Corporation (TSX:DC.A)	Goodman	Financials	Ontario
13	Empire Company Limited (TSX:EMP.A)	Sobey	Consumer Staples	Nova Scotia
14	Husky Energy Inc. (TSX:HSE)	Li	Energy	Alberta
15	Linamar Corp. (TSX:LNR)	Hasenfratz	Consumer Discretionary	Ontario
16	Loblaw Companies Limited (TSX:L)	Weston	Consumer Staples	Ontario
17	Maple Leaf Foods Inc. (TSX:MFI)	McCain	Consumer Staples	Ontario
18	Molson Coors Brewing Company (TSX:TPX.B)	Molson, Coors	Consumer Staples	Québec <sup>14</sup>
19	Mullen Group Ltd. (TSX:MTL)	Mullen	Energy	Alberta
20	Paramount Resources Ltd. (TSX:POU)	Riddell	Energy	Alberta
21	Power Corporation of Canada (TSX:POW)	Desmarais	Financials	Québec
22	Quebecor Inc. (TSX:QBR.B)	Péladeau	Telecom/Media	Québec
23	Rogers Communications Inc. (TSX:RCI.B)	Rogers	Telecom/Media	Ontario
24	Saputo Inc. (TSX:SAP)	Saputo	Consumer Staples	Québec
25	Shaw Communications, Inc. (TSX:SJR.B)	Shaw	Telecom/Media	Alberta
26	ShawCor Ltd. (TSX:SCL)	Shaw	Energy	Ontario
27	Teck Resources Limited (TSX:TCK.B)	Keevil	Materials	B.C.
28	The Jean Coutu Group (PJC) Inc. (TSX:PJC.A)	Coutu	Consumer Staples	Québec
29	Thomson Reuters Corporation (TSX:TRI)	Thomson	Telecom/Media	USA <sup>15</sup>
30	Transcontinental Inc. (TSX:TCL.A)	Marcoux	Industrials	Québec

<sup>14</sup> Officially have two head offices: Montréal, Québec and Denver, Colorado. Dual listing Toronto/New York.

<sup>15</sup> Even though the head office is located in New York, it is included in the NBC Canadian Family Business Index since it is dual listed Toronto/New York and controlled by the Thomson Family (a Canadian family) via Woodbridge Inc.

## Regional breakdown of the 30 companies included in the NBC Canadian Family Business Index

### BRITISH COLUMBIA

- Teck Resources Limited

### ALBERTA

- ATCO Ltd.
- Husky Energy Inc.
- Mullen Group Ltd.
- Paramount Resources Ltd.
- Shaw Communications, Inc.

### ONTARIO

- AGF Management Limited
- Canadian Tire Corp. Ltd.
- CCL Industries Inc.
- Dundee Corporation
- Linamar Corp.
- Loblaw Companies Limited
- Maple Leaf Foods Inc.
- Rogers Communications Inc.
- ShawCor Ltd.





**QUÉBEC**

- Alimentation Couche-Tard Inc.
- BMT Group Inc.
- Bombardier Inc.
- Canam Group Inc.
- Cascades, Inc.
- CGI Group, Inc.
- COGECO Inc.
- Molson Coors Brewing Company
- Power Corporation of Canada
- Quebecor Inc.
- Saputo Inc.
- The Jean Coutu Group (PJC) Inc.
- Transcontinental Inc.

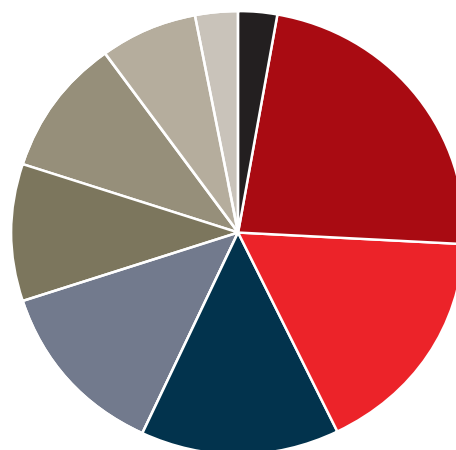
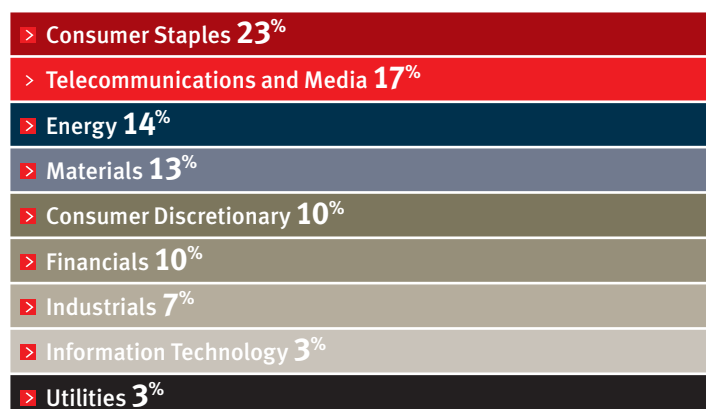
**NOVA SCOTIA**

- Empire Company Limited

**NEW YORK, USA**

- Thomson Reuters Corporation

## Industry breakdown of the 30 companies included in the NBC Canadian Family Business Index



The characteristics of the NBC Canadian Family Business Index are as follows:

- ▶ 30 Canadian family-controlled public companies of different industries, regions and sizes
- ▶ Equally-weighted index to avoid market cap influence
- ▶ Dividend distributions are reinvested back to the original name
- ▶ Semi-annual rebalance at the end of June and December to equal weighting

Some difficult choices had to be made in order to retain only 30 companies in the NBC Canadian Family Business Index. The size of the index is relatively small compared with the Canadian family-controlled public companies universe which includes among others the following companies: ADF Group Inc., Corus Entertainment Inc., Dollarama Inc., Dorel Industries Inc., EXFO Inc., High Liner Foods Inc., KP Tissue Inc., Lasonde Industries Inc., Leon's Furniture Ltd., Logistec Corp., MTY Food Group Inc., New Look Vision Group Inc., Northland Power Inc., Ovivo Inc., Reitmans

Canada Ltd., Spin Master Corp. and Velan Inc. Therefore, some industries, regions or sizes might be less or over represented in the index vs. the coverage universe.

Also, in order to be included in the index, companies must have at least 10 years of listing history. Companies that recently went public or those that were privatized over the period were excluded even if they would have been very interesting candidates. Privatized companies include Astral Media Inc.<sup>16</sup>, Manac Inc.<sup>17</sup> and others. Recently listed companies include BRP Inc. (2013), Cara Operations Limited (2015), GDI Integrated Facility Services Inc. (2015), Lumenpulse Inc. (2014), Shopify Inc. (2015) and Stingray Digital Group Inc. (2015). It is also important to note that this methodology choice might cause a survivorship bias, as only companies that were listed throughout the 10-year period are included in the index.

Regulatory reasons play a key role in either favouring or impeding family businesses in some industries and may explain why some industries are more or less represented than

others, especially the telecommunications and banking industries. For instance, in the telecommunications sector, the Canadian Radio-television and Telecommunications Commission put in place some foreign ownership limitations for the Canadian telecommunications carriers. It therefore facilitates Canadian family ownership for companies in that industry.

In the banking industry, the Bank Act requires that no person (or group of person acting in concert) shall have a significant interest (defined as more than 10%) in any class of shares, therefore impeding control by families.

<sup>16</sup> Was acquired by Bell Media Inc., part of BCE Inc. Transaction closed in 2013.

<sup>17</sup> In the process of being privatized by a consortium of Quebec-based investors, including the Dutil family, Caisse de dépôt et placement du Québec, Fonds de solidarité FTQ, Investissement Québec and Québec Manufacturing Fund. The transaction was approved by shareholders on Sept. 30, 2015.

## 4. The Pathways to Sustainable Outperformance for Family-Controlled Businesses: Myths and Reality

Preceding sections have documented the critical role which large family-controlled businesses play in the global and Canadian economies, and their ability to outperform their widely-held counterparts. The objective of this section is to examine some of the ways to sustain and enhance the inherent advantages of family firms, while surmounting some of their unique challenges. We share the view put forward by *The Economist* in its recent report on global trends in family businesses: “Family companies are likely to remain a significant feature of global capitalism thanks to a combination of two factors: they are better at managing themselves, and they are learning how to minimize their weaknesses while capitalizing on their strengths.”<sup>18</sup> It is not our intention to be exhaustive, but rather to focus on some of the factors which help explain the outperformance of family firms in a Canadian context.

It should be cautioned at the outset that, while many outperforming family firms share some common characteristics and challenges, there are no recipes or “one size fits all” models to ensure success. It is therefore important to analyze the internal dynamics and unique characteristics of individual family firms, not just to predict their future performance, but also to seek out the equally unique and adapted solutions to maximize performance. It should also be noted that there are significant differences between the large publicly-traded family businesses, and the smaller firms. The larger firms have been far more successful, for example, at surmounting some of the governance issues which undermine the performance and survival of the smaller companies.

### The inherent advantages of family-controlled businesses

Various international studies have put forward a number of the “inherent” advantages enjoyed by family firms to explain their outperformance, including the focus on longer-term profitability, more effective uses of capital (less debt, higher earnings quality, more disciplined cost control, innovation, M&A and diversification), the ability to make quicker decisions to take advantage of opportunities, the capacity to retain talent at all levels of the firm, better labour relations, and a corporate culture more focused on legacy, and reputation.

### Family values lead to stronger corporate culture

The real and potential advantages of the corporate culture of family firms can easily be dismissed because they are to a large extent unquantifiable. Yet, corporate culture more often than not underpins the superior performance of family companies. It includes intangibles such as the values of the founder: entrepreneurship, vision, work ethic, focus on wealth creation, a deep understanding and commitment to the countries and communities in which they are involved, personal relationships with stakeholders across the value chain, a sense of mission, loyalty, continuity, resilience and concern for reputation.

A global survey by McKinsey which compared the “organizational health” of 114 family firms with some 1,200 other large companies concluded that family firms scored significantly higher on their corporate culture, worker motivation and leadership. In the survey, 90% of board members and

top executives (family or not) said that family values were present in the organization, and 70% believed they were part of its day-to-day operations.<sup>19</sup>

An Ernst and Young survey of 25 large and successful family businesses in each of the top 21 global markets (with an average of 12,000 employees and \$3.4 billion in sales) found that two-thirds of respondents believed that family business branding helped to differentiate them from their competitors and improve the reputation of their company with customers, employees, and stakeholders. Pride in the family legacy was also deemed to help create family cohesiveness. Other global studies have shown that “family businesses are more likely to value and implement corporate social responsibility (CSR), sustainability practices, and engaging in philanthropy... which are well established as being good for business.”<sup>20</sup>

Some Canadian examples include: (1) Jean Coutu, which in 2014 was awarded the #2 position for the “most admired company in Québec” (Léger Marketing), and was also ranked #2 among the “most respected Canadian brands” (Canadian Business); and (2) Cascades which has pioneered the green revolution in the pulp and paper business by using recycled fibres. In 2014, recycled fibres amounted to 80% of the company’s fibre & pulp consumption.

<sup>18</sup> “To have and to hold”, *The Economist*, April 18, 2015

<sup>19</sup> “Perspectives on Founder and Family-Owned Businesses”, McKinsey & Company, 2014

<sup>20</sup> “Staying power: how do family businesses create lasting success?”, Ernst and Young, 2015

The evidence is also strong that Canadian family firms outperform in their ability to retain and manage talent at all levels of the firm, including most notably top management. CEO tenures are longer and executive turnover rates are lower than for widely-held firms. Family firms also achieve higher employee satisfaction, commit to their employees (fewer layoffs), are more likely to promote from within and spend more on training.

## Focus on sustainable long-term profitability is key to outperformance

One of the most important benefits of the corporate family culture, which is a key factor underlying the outperformance of most family businesses, is the focus on sustainable long-term profitability. Many widely-held firms, by contrast, have come under increasing criticism for their inordinate focus on short-term results, which have become a nearly universal yardstick by which CEOs are judged and remunerated. Given that CEO tenures at widely-held companies are far shorter than in the past and than in family firms, the pressures cannot be underestimated.

A worrisome global trend in recent years, and particularly since the recession, has seen a drop in company investments, where publicly-quoted companies have tended to invest less than private companies with similar profits and turnovers. One of the explanations is that “businesses have been encouraged to do so by shareholders, who demand that cash be returned to them in the form of buybacks and who turn over their portfolios much more quickly than in the past. The average holding period for shares in America and Britain has dropped from six years in 1950 to less than six months today.”<sup>21</sup>

A report commissioned jointly by McKinsey and the CPP Investment Board in 2013, which we mentioned earlier, and which is based on a survey of 1,038 senior global business executives and board members, argues that short-termism is on the rise, and is ultimately detrimental to financial performance. Nearly two-thirds of respondents (63%) said that the pressure to deliver short-term results had increased over the past five years, and 79% answered that “the time frame in which they personally felt the most pressure to deliver results was two years or less.” Yet, 73% of respondents believe that the time horizon should be three years or more, and an overwhelming majority felt that their company would benefit from a longer-term approach, including increasing innovation and investments, and improved financial returns.<sup>22</sup>

A study published in the Harvard Business Review (HBR) of 149 large (more than \$1 billion in revenues) publicly-traded family businesses in seven countries, which concludes that family businesses outperformed in all countries, states that family firms focus on resilience more than performance, and that their executives “often invest with a 10-to-20 year time horizon...managing their downside more than their upside.”<sup>23</sup>

A number of other studies have also argued that family firms are less likely to embrace diversification and international expansion. While the evidence is clear for smaller family businesses, it is more mixed for larger ones. The HBR study mentioned above concluded that 46% of family businesses were highly diversified, compared with 20% for widely-held firms. For family firms, “diversification is important not only for long-term performance, but also for control, because it makes unnecessary for family members to take money out of the business and diversify their assets themselves.”<sup>24</sup> With regards to M&A, large family firms are often more conservative and prudent and, by some estimates,<sup>25</sup> spend only half as much on acquisitions than nonfamily firms. They tend to favour organic growth and smaller acquisitions, which on average turn out to be more accretive than for widely-held firms. The preference for organic growth and smaller acquisitions also guides the international expansion of family firms.

**The evidence indicates that the large majority of public Canadian family firms focus on long-term profitability, accretive acquisitions and generally healthier balance sheets.**

## Key challenges and governance issues

The sustained outperformance of family firms requires them to surmount a number of potentially important challenges, and to effectively deal with governance issues. These include succession and other leadership transitions, optimizing the role of the board of directors, access and transparency, managing internal family dynamics to ensure close alignment between business and family objectives, achieving an optimal mix between owner-managers and professional managers, the potential conflicts with minority shareholders (and discounted share prices) and ownership structure (including dual-class shares).

While many companies have found effective ways of overcoming these challenges, and while giant steps have been taken to professionalize the operations of family firms, our findings on large Canadian family firms confirm the importance of governance issues, with succession and the role of the board at the top of the list. Other issues, however, are more prevalent in smaller family firms, and have been vastly overestimated. These include conflicts with minority shareholders, dual-class share structures, and access and transparency. The evidence from global research and the view of National Bank Financial Markets’ analysts on large family-controlled Canadian businesses indicates that transparency, including the flow of financial information and access to management, is at least as good in large family businesses as in widely-held firms.

<sup>21</sup> “A new contract for growth”, *The Economist*, Aug. 2015

<sup>22</sup> “Focussing Capital on the Long Term”, Canadian Pension Plan and McKinsey & Company, Dec. 26, 2013

<sup>23</sup> “What You Can Learn from Family Business”, *Harvard Business Review*, November 2012

<sup>24</sup> “The five attributes of enduring family businesses”, McKinsey & Company, January 2010

<sup>25</sup> “What You Can Learn from Family Business”, N. Kachaner, G. Stalk, and A. Bloch (Boston Consulting Group), *Harvard Business Review*, November 2012

## Dual-class shares and minority shareholder rights

A sometimes heated debate has been ongoing in many countries, including Canada, about dual-class share structures (also referred to as multiple voting shares) which allow a number of shareholders, most notably family members, to exercise ultimate control over companies through superior voting shares. Some have argued in favour of the abolition of dual-share structures, on the basis that they are contrary to the principles of good governance and the best interests of shareholders.

In a detailed study of dual-class share structures in Canada, Yvan Allaire, chairman of the board of the Institute for Governance of Private and Public Organizations, states that “the arguments for and against dual classes of shares are still heavily weighted by ideology and misconceptions”.<sup>26</sup> Several studies in the Canadian context conclude that there is no relationship between the market value of a firm and its share structure. A study by the Clarkson Centre for Business Ethics and Board Effectiveness at the University of Toronto Rotman School of Management even found that family firms with dual-class shares in Canada had 15-year returns (up to 2012) of 8.8% compared with 5.1% for family firms with equal voting shares, as well as outperforming their industry peers.<sup>27</sup> It should be noted, however, that the sample size was small, and that these results contradict those in other countries. According to National Bank Financial Markets’ sector analysts, dual-share structures generally have little impact on profitability.

While he makes several recommendations that seek to improve the safeguards and minimize the potential downside of dual-class share structures, Allaire argues that “the private benefits of control (via superior-vote shares) for Canadian firms are among the smallest in the world (see table below), close to the United States and ahead of the UK in terms of the private benefit extraction”. Put another way, the market in Canada ascribes only a small premium to the value to superior voting shares.

## Private benefits of control in different countries

COUNTRY	VOTING PREMIUM (%)
Australia	23
France	28
Sweden	1
Germany	10
Mexico	46
Italy	29
United Kingdom	10
United States	2
<b>Canada</b>	<b>3</b>

Source: “Controlled Companies Briefing,” Chartered Accountants of Canada, Y. Allaire, 2010

Note: Voting premium is average of estimated total value as a percentage of firm value.

Finally, Allaire points out some of the potential pitfalls of eliminating dual-class shares. For example, many entrepreneurs who are seeking sources of capital to finance growth would simply shun the equity markets if it meant losing control of their companies.

The research of National Bank Financial Markets’ analysts confirms that the interests of Canadian family owners (including those who benefit from superior voting rights) are in most cases aligned with those of the minority shareholders, even when a dual-class structure is in place. This can in large part be explained by the Canadian legal environment, including the so-called coattail provisions which mitigate the potential pitfalls of dual-class shares. The 1987 decision by the Toronto Stock Exchange stipulates that, on a go-forward basis, “no offer to acquire the class of controlling shares would be valid without the would-be acquirer making a concurrent offer at the same terms and conditions to the other class of shareholders”.<sup>28</sup>

Overall, however, the negative impacts of dual-class share structures on shareholder value have been overstated. Bluntly put, when companies are performing well,

dual-class shares are rarely an issue. When corporations make bad decisions or underperform, however, dual class shares are perceived to be part of the problem. In the final analysis, family members who typically have a large amount of their personal wealth invested in the family business will seek to maximize the value of their shares, which will in most cases align their interests with those of other shareholders.

## Strong and independent board of directors to ensure continuity and long-term performance

Strong and independent boards of directors are an important component of good governance, and in ensuring the financial performance and the long-term sustainability of large (and small) family firms. An effective board will play multiple roles, including providing an independent assessment of performance and strategy, reconciling the needs of the business and the family, planning for succession and leadership transitions with a view of optimizing the contribution of family-owners and professional managers, safeguarding minority shareholder rights, and protecting the firm against nepotism, conflicts of interest, irrational decisions and other breaches of governance. Proper checks and balances will allow owner-managers to adopt new strategies or to take advantage of new opportunities more rapidly, while at the same time minimizing the risks of failure.

<sup>26</sup> “Dual-class share structures in Canada: Review and recommendations”, Y. Allaire, The Institute for Governance for Private and Public Organizations, October 2006

<sup>27</sup> “The Impact of Family Control on the Share Price Performance of Large Canadian Publicly-Listed Firms”, Clarkson Centre for Board Effectiveness, June 2013

<sup>28</sup> “Controlled Companies Briefing”, Chartered Accountants of Canada, Y. Allaire, 2010

The evidence shows that a board of directors with a majority of active, qualified and independent members provides not only an optimal structure for operating family firms, but also offers the best guarantee for financial outperformance. It will also contribute to the legitimacy and credibility of the family firm in the eyes of the public and shareholders.<sup>29</sup> In Canada, the presence and influence of the family is significant on a majority of the boards of large family-controlled businesses. At the same time, most family executives and board members have sought out strong independent outside directors for their advice, expertise and contacts. While, in many cases, the family is in a position to make ultimate decisions, there is scant evidence of systematic and dysfunctional conflicts between family board members and outside directors.

## Succession planning: A complex but critical component of lasting success

The most critical function of the board is to manage the recruitment, training and integration of new senior executives, including the CEO, up to and including the succession process. It must carefully balance the benefits of continued family involvement, and the need to attract and retain top-notch external talent. The evidence is undisputed that descendants of the original founder can add considerable value as either managers or active board members of family firms.<sup>30</sup> The most successful family businesses are “those that manage to enshrine the founder’s values into the business culture and legend, while at the same time adopting a more collaborative style of management and corporate governance, as future generations step up”.<sup>31</sup>

Nonetheless, succession is an enormously complex and risky operation. As families grow from one generation to the next, ownership fragments. It is not unusual today to see family investment companies with several hundred ownership stakes. Conflicts between passive family members who may be seeking more dividends, and those who are involved in management looking for investment and growth are one of the many potential tension points.

Many family firms are thrown into turmoil by bitter and often high-profile struggles between family members, more often than not on issues surrounding succession. Most smaller family businesses will not survive the transition to the second and third generation. According to the Family Business Institute, failed successions are the single most important obstacle to the sustainability and continued outperformance of family firms. For obvious reasons, investors and analysts need to keep a watchful eye on the intricacies of succession in any given family firm.

Here again, however, many of the larger firms have been successful at navigating the pitfalls of succession, often with the active leadership of an independent board. According to Allaire, descendants of the founder and other family members should neither be barred nor given preferential treatment for senior leadership positions. If they are being considered, they must be brought in gradually, and given the opportunity to acquire the proper skills and experience, as well as the credibility and trust necessary internally and externally.

Similarly, non-family professional managers, who are rapidly expanding their role in family firms, must not only have all the necessary skills to run a major company, but also be able to internalize company values, i.e., cultural fit, and to create a constructive and productive relationship with key family members. If the professional manager is hired from outside the firm, the board must set up a well-structured and supervised transition period which will maximize the odds of a successful integration, particularly in the case of a prospective CEO. It must be

said that, in most cases, including in Canada, the family retains control of the company when a professional manager assumes the CEO position, but family influence will vary.

## Canadian specific factors

In addition to the advantages and challenges of family firms, it is important to keep in mind the specific economic, social and political environment in which Canadian family firms operate. In part because Canada has a relatively small population, it produced a tightly-knit local business elite concentrated in a handful of cities which, among other advantages, has facilitated personal relationships and interaction between elites and between owners and large shareholders, and with the different levels of government. The desire of most Canadians to protect the national identity and to preserve a degree of economic autonomy vis-à-vis its powerful neighbour and ally, the United States, has also pressured the federal and provincial governments to impose foreign ownership guidelines and restrictions in what are considered key industries, including media and telecommunications. Specific regulatory (for example, rules on dual-class structures), legal, and fiscal constraints also need to be taken into consideration.

To conclude, the analysis of large publicly-listed Canadian family firms confirms the main findings of a recent global study of 50 of the leading family firms: that “most of the companies offer valuable lessons for unlocking great leadership in family businesses”, thus ensuring lasting outperformance.<sup>32</sup>

<sup>29</sup> “Controlled Companies Briefing”, Chartered Accountants of Canada, Y. Allaire, 2010

<sup>30</sup> “Controlled Companies Briefing”, Chartered Accountants of Canada, Y. Allaire, 2010

<sup>31</sup> “Strategic Planning and Family Business”, McNally Brown Group, 2014

<sup>32</sup> “Leadership Lessons from Great Family Businesses”, *Harvard Business Review*, April 2015

# APPENDIX

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September 15, 2015

**AGF/B (TSX)** **\$5.97**  
**TARGET PRICE:** **\$6.50**  
**POTENTIAL RETURN:** **14.2%**

52-week range	\$5.16 - \$12.49
Shares Outstanding (mln)	82.9
Market Capitalization (\$ mln)	\$495

Fiscal Year End: Nov 30

(\$Million)	2014A	2015E	2016E
Management & Advisory Fees	\$433.1	\$419.0	\$415.8
Total Revenue	\$464.5	\$458.4	\$458.8
Operating Expenses	(\$309.7)	(\$316.0)	(\$316.1)
Adjusted EBITDA	\$154.8	\$142.4	\$142.7
Core Net Income	\$59.0	\$57.5	\$59.1
Core EPS (FD)	\$0.68	\$0.68	\$0.71
Price / Earnings	8.8x	8.8x	8.4x

Financial Data: 05/31/2015

Book Value per Share	\$11.01
Price/Book Value	0.54x
Quarterly Dividend per Share (declared)	\$0.08
Dividend Yield	5.4%
Payout Ratio (LTM)	94.3%



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**Stock Rating: Sector Perform**  
**Risk Rating: Above Average**

Industry Rating (Diversified Financials): Market Weight  
(NBF Economics & Strategy Group)

## AGF Management Ltd.

### COMPANY PROFILE

AGF Management Limited is a Canadian-based investment solutions firm. AGF Investments provides investment management services to investors through their advisor, institutional and private counsel businesses. The investment management business has approximately \$35 billion in assets under management, made up of retail, institutional and sub-advisory and high net worth AUM.

### INVESTMENT HIGHLIGHTS

We note that AGF's fund performance has been weak relative to industry averages and that AGF lacks the distribution scale of its larger peers. This has resulted in several consecutive years of net redemptions.

Ultimately, we believe that incremental improvement in fund performance and the expansion of AGF's European (UCITS) and alternative asset management (InstarAGF) platforms will spur a moderation in net redemptions. However, this turnaround story is materializing very slowly and hinges on the successful execution on a number of initiatives in retail fund investment processes and products, as well as developing the nascent UCITS and InstarAGF platforms.

In the first half of 2015, industry sales momentum and the rotation into equities was dented by steep oil price declines and global growth concerns, which may continue to impact equity markets.

### RISK FACTORS

AGF's fund performances could struggle if global equity markets weaken. Furthermore, institutional or sub-advisory assets constitute 30% of AGF's AUM. The loss of any sizeable mandates would have a material impact on earnings. AGF also relies largely on third-party brokers and advisors for the sale of its fund products. Should AGF lose preferred access to one or more of its advisor partners, the company could experience a further reduction in net sales and an acceleration in net redemptions. We note execution risk remains elevated: AGF conducted a thorough review of its retail, institutional, and alternative asset management platforms, and are now entering the implementation phase.

### VALUATION & RECOMMENDATION

Our price target of \$6.50 is derived using a sum-of-the parts valuation. Our target EBITDA multiple for the Investment Management operations is 4.0x, which we apply to our blended f2016/f2017 forecast (3.0x below the historical average). In addition, we value AGF's Long-Term Investments and its 32.0% equity interest in Smith & Williamson at book value.

Although we expect easing net redemptions to ultimately drive a re-rating of the shares, the much-anticipated turnaround in retail sales performance has been materializing very slowly. As a result, a re-rating of the shares could take some time to materialize.

We rate the shares Sector Perform.

## DISCLOSURES:

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October 8, 2015

**ATD.B (TSX)** **\$61.07**  
**TARGET PRICE:** **\$63.00**  
**POTENTIAL RETURN:** **3.5%**

52-week range	\$62.72 - \$32.10
Shares Outstanding (mln)	569.1
Free Float	70%
Market Capitalization (CAD mln)	34,755

Fiscal Year End: April

	2015A	2016E	2017E
Sales (mln)	\$34,527	\$37,707	\$41,017
EBITDA (mln)	\$1,913	\$2,163	\$2,306
EPS (FD)	\$1.80	\$2.03	\$2.21
P/E	26.3x	23.2x	21.3x

Financial Data: As at Q1/F16

Cash (mln)	\$822
Total Debt (mln)	\$2,972
Net Debt (mln)	\$2,151
Debt/Capital	34%
BVPS	\$7.37
Dividend per share	\$0.22
Dividend Yield	0.4%



Source: Thomson, NBF

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**Stock Rating: Outperform****Risk Rating: Average**

Industry Rating: Underweight  
(NBF Economics & Strategy Group)

## Alimentation Couche-Tard

### COMPANY PROFILE

Alimentation Couche-Tard is the second largest convenience store chain in North America. The stores operate mainly under the Couche-Tard banner in Quebec, Mac's in English Canada and as Circle K/Kangaroo Express in the United States. The company has also acquired a presence in Europe through the acquisition of Statoil Fuel & Retail. Management indicated plans to rationalize its global banners over several years.

### INVESTMENT HIGHLIGHTS

#### Maintaining a strong balance sheet

Despite recent acquisitions, ATD's balance sheet remains strong with adjusted net interest bearing debt/adjusted EBITDAR below 2.5x. ATD has been able to reduce debt through its strong free cash flow; we estimate that ATD has the capacity to finance an acquisition of over \$2.0 billion without issuing equity (based on average acquisition parameters).

#### Growth through acquisitions

ATD has successfully grown its business globally through its recent acquisitions of SFR and The Pantry. Management indicated that it continues to look for acquisitions globally. We believe there are opportunities for acquisitions in ATD's current regions of operations.

#### Delivering on synergy capture

Synergy capture has progressed well with both SFR and The Pantry (SG&A and COGS savings). We believe that the company's synergy targets are achievable within the specified timeframe. We believe that incremental synergy potential exists, given that management's synergy targets do not reflect achievable revenue synergies.

### RISK FACTORS

The key risks to our outlook include volatility in gasoline margins, foreign exchange (Canadian dollar / European currencies), acquisition integration and regional economic conditions.

### VALUATION

**Maintain Outperform rating; price target is Cdn\$63**

We value ATD at 21.5x our blended F17/F18 EPS (adj. for FX).

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September 15, 2015

**ACO'X (TSX)** **\$36.83**  
**TARGET PRICE:** **\$47.00**  
**DIVIDEND YIELD** **2.8%**  
**TOTAL RETURN:** **30.4%**

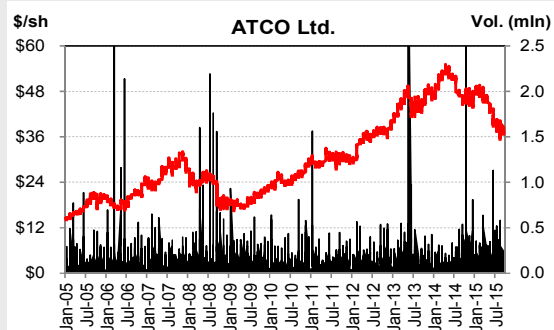
52-week range	\$50.40 - \$35.14
Shares Outstanding (mln)	115.1
Market Capitalization (\$ mln)	\$8,522

Fiscal Year End: Dec. 31

	2014a	2015e	2016e
EBITDA (mln)	\$1,855	\$1,719	\$1,982
Maint. Capex (mln)	\$627	\$655	\$702
Free-EBITDA (mln)	\$1,228	\$1,064	\$1,280
EV/Free-EBITDA	14.2x	15.3x	12.7x
EPS (FD)	\$3.16	\$2.68	\$3.15
P/E	15.1x	13.7x	11.7x
AFFO/sh (FD)	\$3.46	\$3.53	\$4.59
P/AFFO	13.8x	10.4x	8.0x
Dividend per Share	\$0.86	\$0.99	\$1.09
Dividend Yield	1.8%	2.7%	3.0%
Adj. Payout Ratio	25%	28%	24%
D/Free-EBITDA	5.6x	7.3x	6.2x

December 31, 2015e

Market Capitalization (mln)	\$8,522
Net Debt (mln)	\$7,721
Enterprise Value (mln)	\$16,243
Net Debt to EV	48%



Source: Bloomberg

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## Stock Rating: Sector Perform Risk Rating: Below Average

Industry Rating: Underweight - Utilities  
(NBF Economics & Strategy Group)

## ATCO Ltd.

### CORPORATE PROFILE (all \$ terms are Cdn)

ATCO Ltd. is a global conglomerate which owns and operates energy infrastructure assets. The company's core holdings include a ~53% controlling interest in Canadian Utilities Limited (TSX: CU / CU'X) and an ~88% consolidated interest in ATCO Structures & Logistics. Its business operations include Utilities (pipelines, natural gas and electricity distribution and transmission), Energy (power generation, natural gas gathering, processing, storage and liquids extraction), Structures & Logistics (manufacturing, logistics and noise abatement), and Technologies (business system solutions).

### INVESTMENT HIGHLIGHTS

ATCO operates under a two-tier common share structure with non-voting and voting shares that are entitled to share equally in the earnings and dividends of the company. ATCO's common share structure consists of Class I (non-voting; TSX: ACO'X) and Class II (voting; TSX: ACO'Y) common shares representing ~88% and ~12% of aggregate common shares outstanding. Overall, we estimate that ~75% of ATCO's 2016e adjusted earnings stem from its Utilities segment, ~15% from Structures & Logistics, ~10% from Energy and ATCO Australia. ATCO offers attractive dividend growth averaging ~10% per year over the past five years. Going forward, we forecast 10% dividend growth through 2016e - bringing the company's annualized dividend to \$1.09/sh (currently \$0.99/sh), while maintaining a sub-30% payout ratio.

### GROWTH PROFILE

ATCO is currently pursuing \$5.8 billion of organic growth projects through 2017, of which \$5.1 billion will be targeted towards its rate-regulated Utilities business. In late 2014, the Alberta Electric System Operator (AESO) selected Alberta PowerLine LP (CU 80% / 20% Quanta Services) to design, build, own and operate the \$1.43 billion, 500 km, 500 kV Fort McMurray West Transmission project from west of Edmonton to Fort McMurray (online 2019). Elsewhere, the Company recently acquired Morris Modular Space (Sudbury, ON), for an undisclosed amount, adding ~10% to its Eastern Canadian Structure & Logistics business. Also in the pipeline is the Company's Wheatstone project (of note added an additional \$96 million in modular units) as well as being announced the preferred proponent to install and operate a 1,600-person workforce housing facility at BC Hydro's 1,100 MW Site C Clean Energy project in northeast B.C.

### RISK FACTORS

There is no assurance that regulators will allow higher ROEs or rate bases at any of the Company's regulated utilities. Declining long-term interest rates may also negatively impact the allowed rate of return determined in setting customer rates. The company's business segments are also subject to macroeconomic growth, unfavourable macroeconomic conditions may decrease the rate of growth. There is no guarantee that ATCO will have access to the equity or debt capital markets on favourable terms to fund future growth prospects. Cash flows from the company's international operations are subject to foreign exchange risk.

### VALUATION

Our \$47.00 target is based on a 14.0x multiple of our 2016e Free-EBITDA of \$1,280 million, our discounted cash flow per share valuation of \$47.50, and a risk-adjusted dividend yield of 2.25% applied to our 2016e dividend of \$1.09/sh. We currently rate ATCO a Sector Perform.

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October 6, 2015

**BBD.b (TSX) / BBD.a (TSX)**      **C\$1.61 / C\$1.62**  
**TARGET PRICE:**                              **C\$2.00**  
**POTENTIAL RETURN:**                              **24%**

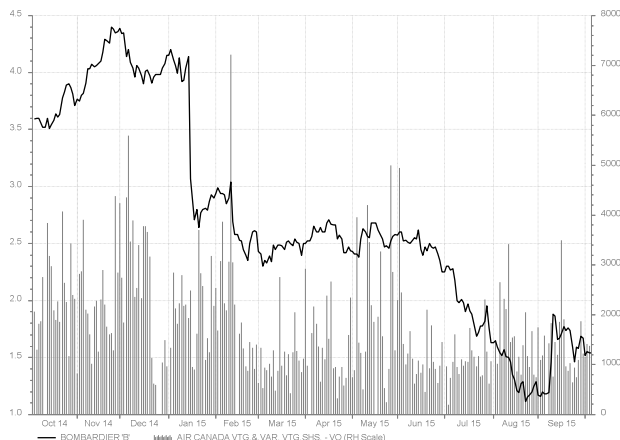
52-week range (BBD.b)                              \$4.43 - \$1.03

(US\$ mln. unless otherwise stated).

(FYE Dec. 31)	2014A	2015E	2016E
Sales (mln)	\$20,111	\$18,712	\$18,667
EBITDA (mln)	\$1,340	\$1,159	\$1,280
EV/EBITDA	6.6x	7.6x	6.9x
FD EPS	\$0.35	\$0.18	\$0.09
P/E	3.5x	6.9x	14.5x

#### Other Data:

Shares Outstanding (mln)	2,128
Market Capitalization (mln)	\$3,426
Net Debt (mln)	\$6,181
Net Debt-to-Cap.	80%
Enterprise Value (mln)	\$8,809
Dividend per share	\$0.00
Dividend Yield	0.0%



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#### Associate:

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## Stock Rating: Sector Perform

## Risk Rating: Above Average

Industry Rating (Aerospace & Defence): Market Weight  
(NBF Economics & Strategy Group)

## Bombardier Inc.

### COMPANY PROFILE (all \$ terms are US\$)

Bombardier is a leading manufacturer of transportation solutions. Bombardier Aerospace is the world's third largest civil aircraft manufacturer, focused on business and regional aircraft, and more recently the 100-149 seat commercial jet segment with the CSeries. Bombardier Transportation is the global leader in passenger rail equipment manufacturing.

### INVESTMENT HIGHLIGHTS

#### CSeries the key driver

The successful execution of the CSeries flight test program (on track for year-end 2015 completion) will be an important factor in boosting investor confidence as well as potential customer confidence in the program. Bombardier needs new orders from marquee customers, however.

#### Cash flows a concern

Bombardier burned through \$1.5 billion in free cash flow in H1/15 and while the company's liquidity is satisfactory for now, it could become a concern by late 2016. A major uncertainty is the cash flow implications of the CSeries production ramp.

#### Business jet market seeing some softness

The high end of the business jet market is seeing some softness and as a consequence, Bombardier has reduced the production rate on its Global series of jets. There remains a risk of a production cut on the mid-size Challenger jets as well since the backlog is heavily weighted towards just three major fleet operators.

#### Expecting major restructuring; timing uncertain

New Bombardier management is still in its deep review of operations and programs and we expect that once the review is complete there will be significant restructuring and other changes specifically within the Aerospace operations. While the end result is likely to be positive for Bombardier, the uncertainty remains an overhang for investors.

#### Potential upside from Transportation IPO

Bombardier is still planning to unlock value and raise liquidity through the IPO of a minority stake in its Transportation division. We have pegged the value of the division at \$5.0 billion, but precedent transactions suggest that the valuation could be higher.

### VALUATION

Our \$2.00 target is based on applying a 8.0x EV/EBITDA multiple to our 2016 EBITDA forecast.

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October 10, 2015

**CTC.a** **\$114.43**  
**TARGET PRICE:** **\$135.00**  
**POTENTIAL RETURN:** **19.9%**

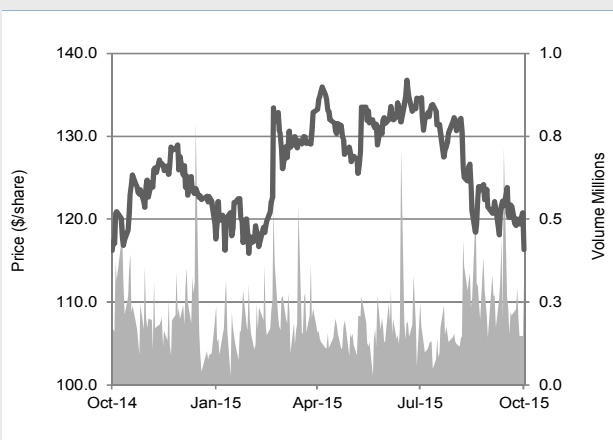
52-week High-Low	\$137.48 - \$109.05
Shares Outstanding (diluted, mln)	77.3
Market Capitalization (mln)	\$8,843.6

Year End: Dec. 31	2014A	2015E	2016E
Sales (mln)	\$12,462.9	\$12,530.8	\$13,260.1
EBIT (mln)	\$1,376.4	\$1,446.0	\$1,530.7
EBIT Margin (%)	11.0%	11.5%	11.5%
Diluted EPS	\$7.96	\$7.83	\$8.71
P/E	14.4x	14.6x	13.1x

All amounts in Canadian dollars

Financial Data:	As at: Q2 2015
Cash (mln)	\$1,284.9
Net Debt (mln)	\$2,745.3
Net Debt to Total Capitalization	36%
Book Value per Share	\$63.03
Price to Book	1.8x
Dividend Yield	1.9%

All amounts in Canadian dollars



Source: Thomson, NBF

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## Stock Rating: Sector Perform Risk Rating: Average

Industry Weighting (Retailing): Underweight  
(NBF Economics & Strategy Group)

## Canadian Tire Corporation, Limited

### COMPANY PROFILE

Canadian Tire is one of the largest retailers in Canada with more than 1,700 retail and gasoline outlets. Canadian Tire's primary retail business categories include: Automotive, Living, Fixing, Sports, Playing and Apparel. The company also has a Financial Services division, which offers products and services such as credit cards, retail deposits and insurance.

### INVESTMENT HIGHLIGHTS

#### Investment in digital

Management has acknowledged that it wishes to be a leading retailer in digital; the company has made material investments to expand its digital footprint/platform. The digital strategy began with Sport Chek and is expected to span other banners over several years. CTC's plan of returning capital to shareholders partially insulates against the potential for uneven results if investments and expected benefits don't manifest in unison.

#### Continuing to capitalize on real estate

CTC spun off CT REIT in 2013 in a deal to monetize its real estate holdings. CTC should benefit from vending further real estate into CT REIT supported by a strong pipeline of real estate which meets CT REIT's investment criteria.

#### Achieving ROIC targets

Management provided a clear target for Retail ROIC improvement (9% by 2017) which suggests a commitment to improving Retail performance beyond the revenue and gross margin lines. We believe that there could be upward pressure on CTC's valuation multiple if management can sustainably deliver a higher ROIC, as it implies the ability to invest more profitably. Progress towards its ROIC goal has been slow; currently in the ~8% range.

### RISK FACTORS

Like most Canadian retailers, Canadian Tire remains highly susceptible to sales volatility as a result of unexpected weather patterns and regional economic strength. The company is also susceptible to increasing competition, primarily from foreign retailers.

### VALUATION

**Maintain Sector Perform rating; price target is \$135**

Our valuation is based on a sum-of-the-parts methodology.

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October 7, 2015

<b>CAM (TSX)</b>	<b>\$13.28</b>
<b>TARGET PRICE</b>	<b>\$19.00</b>
<b>POTENTIAL RETURN</b>	<b>42.8%</b>

**Stock Data:**

52-week range	\$9.09-\$15.00		
Basic Shares Outstanding (mln)	42.1		
Market Capitalization (\$ mln)	\$558		
Net Debt (incl convertible debt) (mln)	\$257		
Enterprise Value (mln)	\$815		

Year-end Dec	2014a	2015e	2016e
Revenue (mln)	\$1,232.8	\$1,481.6	\$1,615.0
Adj. EBITDA (mln)	\$78.6	\$111.5	\$129.7
Adj. EBITDA margin	6.4%	7.5%	8.0%
EPS	\$0.70	\$0.95	\$1.28
P/E	19.1x	13.9x	10.4x
EV/EBITDA	10.4x	7.3x	6.3x

**Financial Data:** As at June 30, 2015 (Q2 2015)

Cash (mln)	\$5.3
Current Ratio	2.1x
Dividend (quarterly)	\$0.04
Net Debt to TTM EBITDA	2.6x

Amounts in CAD unless otherwise indicated

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(514) 390-7825**Stock Rating: Outperform****Risk Rating: Average**Industry Rating: Market Weight  
(NBF Economics & Strategy Group)**Canam Group Inc.****COMPANY PROFILE**

Canam Group Inc. is an industrial infrastructure company operating 22 manufacturing plants across North America focused predominantly on the design and fabrication of steel joists and deck, bridges and similar structures, as well as stadiums and other social infrastructure.

**INVESTMENT HIGHLIGHTS**

**Canam is a play on U.S. non-residential construction that has room to grow** 2014 volumes in the U.S. non-residential market are still 45% below the previous peak of 2007. With 78% of its backlog being U.S. work, Canam provides significant exposure to a U.S. non-residential construction recovery. Furthermore, increasing U.S. activity eases competitive pressures allowing for price hikes. Meanwhile, Canada is less attractive to U.S. peers due to a weaker CAD/USD.

**Margin improvement taking effect**

Canam delivered stronger profitability in Q2/15 with EBITDA margin improving from 5.7% in Q2/14 to 7.2% due to price increases implemented in 2014 and increasing utilization rates. Profitability increased in the J&D and Heavy Structural segments with lower SG&A (7.0% in Q2/15 vs. 7.9% in Q2/14) also contributing to the higher EBITDA margin. We continue to expect margin expansion throughout the business.

**Backlog to benefit from large contracts in Q3**

Backlog was flat at \$1.1 billion at the end of Q2 but did not include the Champlain Bridge project (\$225 million) and the newly signed Kennedy Bridge contract (\$25-30 million) which will increase (~25%) backlog as of Q3/15.

**Overhang to be lifted as October converts near maturity**

Canam's \$69 million convertible debenture (\$12 conversion) matures in October. With earnings momentum expected to continue, we feel that this overhang should soon be lifted and with the stock above the conversion price, our Q4/15 estimates reflect the additional 5.75 million share count.

**RISK FACTORS**

Key risks that could potentially impact our target price include: 1) reduction and underfunding of construction projects; 2) large and sudden changes in the price of steel; 3) non-financial impacts to the construction industry in CAM's key operating markets.

**VALUATION**

Canam is trading at 6.3x our 2016e EV/EBITDA and 10.5x 2016e EPS, at a discount to its five-year averages of 7.2x and 13x respectively. Our \$19.00 target is based on applying 7.5x EV/EBITDA to our 2016 estimates. CAM remains on NBF's Action List.

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October 7, 2015

**CAS (TSX) \$8.77**  
**TARGET PRICE: \$10.00**  
**POTENTIAL RETURN: 15.8%**

52-week range	\$5.64 - \$9.22
Shares Outstanding (mln)	94.5
Market Capitalization (\$ mln)	\$829

(YE December)	2014A	2015E	2016E
Revenue (mln)	\$3,561	\$3,730	\$3,816
Adjusted EBITDA (mln)	\$340	\$376	\$400
EV/EBITDA	7.4x	6.7x	6.3x
Adjusted EPS (fd)	\$0.21	\$0.81	\$0.83
P/E	41.8x	10.9x	10.6x

**As at:** **June 30, 2015**

Total Debt (mln)	\$1,717
Net Debt (mln)	\$1,693
Net Debt/EBITDA (LTM)	4.7x
Net debt to Capital	63%
Dividend per share	\$0.16
Dividend Yield	1.8%

Source: Company reports, NBF estimates



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**Stock Rating: Outperform**

**Risk Rating: Above Average**

**Industry Rating (Packaging): Market Weight**  
**(NBF Economics & Strategy Group)**

## Cascades Inc.

### COMPANY PROFILE

Cascades is a producer, converter and marketer of packaging and tissue products composed mainly of recycled fibres in North America and Europe. Cascades' two main business segments are Tissue and Packaging, with the latter including Boxboard Europe, Containerboard and Specialty Products. The Québec-based company, which was founded in 1964 by the Lemaire family, currently employs close to 11,000 people in over 90 units.

### INVESTMENT HIGHLIGHTS

#### Reaping the rewards from recent initiatives

Cascades is reaping the rewards from past restructuring efforts and investments made in its asset base. We highlight new machinery in the Containerboard (Greenpac, the largest recycled linerboard mill in North America) and Tissue segments which are currently ramping up. In the Specialty Products segment, the company now has a sharper focus on its core activities following a mill closure and the divestiture of Fine Papers.

#### Momentum in Containerboard expected to continue

In past quarters, Cascades' Containerboard operations have been a significant contributor to the firm's improving profitability with Containerboard now representing over 50% of consolidated EBITDA. Looking ahead, we forecast continued near-term strength on the back of healthy demand, the positive impact of a weak Canadian dollar vs. the U.S. currency and low Old Corrugated Containers (OCC) costs.

#### Tissue still under pressure but recent efforts should help

Tissue profitability has been under pressure with EBITDA margin reaching 7% year-to-date, down from 13% in 2013. As per management, temporary start-up costs explain most of the decline and, as such, margins should at least partly recover. Given persistent competitive pressures, we believe that moving back to the targeted 13% margin may require price increases, cost containment and product innovation.

#### Boralex stake not for sale for now; Leverage down anyway

Cascades still has no near-term intention to sell its stake in Boralex. Despite this, leverage looks bound to be reduced by \$100 million annually given higher profitability and lower capex requirements (\$150 million) moving forward.

### RISK FACTORS

Demand for Cascades' products, containerboard and boxboard in particular, is sensitive to economic conditions. Cascades' markets are highly competitive and some of the competitors are large, global players. Unfavourable movements in exchange rates, selling prices and raw material costs can materially impact the company's financial results. Cascades' debt ratios are above the industry average.

### VALUATION

Our \$10.00 target is derived from a sum-of-parts analysis which uses multiples at a discount to peers.

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October 5, 2015

**GIB.A (T); GIB (N)** **\$48.70; US\$37.16**  
**TARGET PRICE:** **\$58.00**  
**POTENTIAL RETURN:** **19%**

52-week range	57.69 - 36.35
Shares Outstanding (mln)	313.3
Free Float (\$ mln)	\$10,685
Market Capitalization (\$ mln)	\$15,259

Fiscal Year End: September 30

(Cdn\$)	2014	2015E	2016E
Revenue (mln)	\$10,500	\$10,127	\$10,239
EBITDA (mln)	\$1,846	\$1,875	\$1,976
Adjusted EPS	\$2.83	\$3.06	\$3.36
CFO (mln)	\$1,175	\$1,186	\$1,458
FCF (mln)	\$842	\$918	\$1,139
FCF/share	\$2.64	\$2.85	\$3.57

Cash & ST Investments (mln)	\$265
Total Debt(mln)	\$2,095
Net Cash (Debt) (mln)	(\$1,830)
Net Cash per share	(\$5.84)
BVPS	\$18.48
Enterprise Value (mln)	\$17,090



Source: Thomson ONE

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**Stock Rating: Outperform****Risk Rating: Average**Industry Rating (Software & Services): Overweight  
(NBF Economics & Strategy Group)

## CGI Group Inc.

### COMPANY PROFILE

Founded in 1976, CGI Group Inc. is the fifth largest independent information technology and business process services firm in the world. Approximately 68,000 professionals serve thousands of global clients from offices and delivery centres across the Americas, Europe and Asia Pacific, leveraging a comprehensive portfolio of services including high-end business and IT consulting, systems integration, application development and maintenance, infrastructure management as well as a wide range of proprietary solutions.

### INVESTMENT HIGHLIGHTS

**Operating in a massive, global market.** According to IDC's research conducted in 2013, the IT domain spending was estimated to be US\$757 billion in the U.S., US\$693 billion in Europe and US\$65 billion in Canada. These numbers exclude the value of services already outsourced and indicate a large untapped potential market for outsourcing services.

**Revenue visibility from recurring contracts.** CGI generates just over half of total revenue from generally longer-term outsourcing contracts, which provide strong revenue visibility. The other revenue segment, systems integration & consulting, is often associated with long-term contracts and also provides decent visibility. CGI is focused on delivering profitable revenue; while this discipline has led to lower revenue in F2015, EBITDA is up in dollar terms and margins have improved.

**Backlog provide stability.** CGI has close to \$20 billion of backlog; approximately two years of revenue. The company generally operates with a trailing book-to-bill ratio above 1x. While bookings can be variable on a quarterly basis, the trailing ratio above 1x is an indication of strong operations (especially as underperforming contracts from acquisitions are culled).

**World-class profitability.** CGI maintains industry-leading EBIT margins from a focus on the bottom line. Employees are compensation on profitability, not revenue growth.

**Cash flow supports share buybacks and M&A.** CGI is a cash flow machine. The company has a very successful history of repurchasing shares through NCIB programs. Acquisitions are a key pillar of the company's growth strategy. We expect the company to execute more M&A once valuations become more reasonable. CGI is very focused on accretive deals.

### RISK FACTORS

Quarterly revenue & margin variability, customer concentration, pricing erosion, acquisitions, FX exposure, general macroeconomic cycles and pricing pressure.

### VALUATION

Our \$58/share target equates to a P/E of ~17x on our F2016E estimates. Multiple expansion beyond this level is unlikely until organic revenue improves.

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September 14, 2015

**CCA (TSX)** **\$65.65**  
**TARGET PRICE:** **\$80.00**  
**POTENTIAL RETURN:** **24.0%**

**Stock Data:**

52-week High-Low (CAD) \$77.02 - \$54.90

Bloomberg/Reuters: CCA CN; CCA TO

(YE Aug. 31)	2014a	2015e	2016e
Revenue (mln)	\$1,947.6	\$2,043.0	\$2,158.4
EBITDA (mln)	\$893.4	\$931.7	\$978.6
EV/EBITDA	6.6x	6.3x	5.9x
Adjusted EPS	\$4.30	\$5.03	\$5.84
FCF Yield	8.5%	8.5%	10.4%
FCF per share	\$5.60	\$5.60	\$6.81

**Financial Data as at: May 31, 2015**

Shares Outstanding (mln)	49.1
Diluted Shares Outstanding (mln)	49.1
Float (mln)	22.5
Market Value (mln)	\$3,223
Net Debt (mln)	\$2,857.0
Shareholders' Equity (mln)	\$1,678.0
Net Debt to Capital	63.0%
BVPS / Price/BVPS	\$34.29/1.9x
2016e ROE	17.8%
Dividend/Yield	\$1.40/2.1%



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October 8, 2015

**EMP.A (TSX)** **\$27.18**  
**TARGET PRICE:** **\$32.67**  
**POTENTIAL RETURN:** **22%**

52-week range	\$31.98 - \$24.47
Shares Outstanding (mln)	277.5
Free Float	85%
Market Capitalization (\$ mln)	7,542

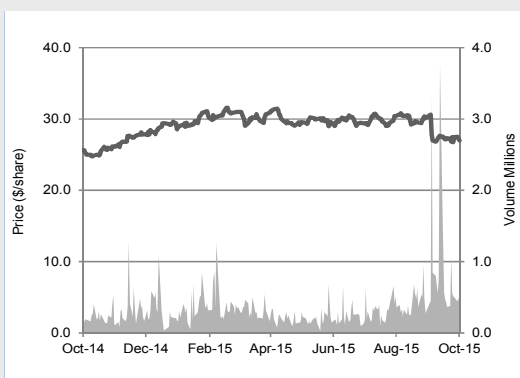
**Fiscal Year End: May**

	2015A	2016E	2017E
Sales (mln)	\$23,929	\$24,031	\$24,391
EBITDA	\$1,326	\$1,285	\$1,404
EPS (FD)	\$1.86	\$1.80	\$2.14
P/E	14.6x	15.1x	12.7x
EV/EBITDA	7.2x	7.4x	6.8x

**As at Q1 F2016**

Cash (mln)	\$384
Total Debt (mln)	\$2,272
Net Debt (mln)	\$1,888
Net Debt/Capital	24%
BVPS	\$21.90
Dividend per share	\$0.40
Dividend Yield	1.5%

Note: Empire's shares began trading on a post-split (3-for-1) basis on 09/29/2015.



Source: Thomson, NBF

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**Stock Rating: Outperform****Risk Rating: Average**

Industry Rating (Food Retailing): Underweight  
 (NBF Economics & Strategy Group)

**Empire Company Ltd.****COMPANY PROFILE**

Empire Company Limited, headquartered in Stellarton, Nova Scotia, operates the second largest grocer in Canada through its wholly-owned subsidiary Sobeys Inc. Empire also holds real estate related investments through its equity interests in Crombie REIT and Genstar, a residential property developer.

**INVESTMENT HIGHLIGHTS****Successfully implement IT/SAP Initiatives**

Pursuant to its acquisition of Canada Safeway, Empire reported challenges with its IT systems and process integration; this includes challenges related to how employees were utilizing new tools to manage the business at Canada Safeway. The company has already allocated necessary resources (particularly with regards to training and organizational realignment) to address the issues. The ability to recover from initial IT missteps is one of the key themes surrounding investor sentiment.

**Balance sheet and capital allocation considerations**

Empire continues to reduce debt given strong free cash flow. The Food Retailing adjusted net-debt-to-EBITDAR has been reduced to less than 3.5x since closing of the Canada Safeway acquisition (was at 4.2x). Management indicated that it is comfortable with the balance sheet; the spending priority is to grow the business (primarily through store retrofits), followed by ongoing dividend growth. Accretive repurchases are possible, but not a high priority.

**EBITDA margin gap**

Despite being near its synergy target of \$200 mln within three years of the Canada Safeway acquisition, Empire's Food Retailing EBITDA margin is underwhelming; we estimate that the FR EBITDA margin is more than 100 bps lower than expected margin performance given the Safeway acquisition, asset divestitures and network rationalization.

**RISK FACTORS**

The primary risk is related to the integration of Canada Safeway and associated capture of synergies. In addition, we note that increased competition could impact profitability.

**VALUATION****Maintain Outperform rating; price target is \$32.67**

Our price target is based on 7.5x our blended F17/F18 Food Retailing EBITDA plus the value of Empire's investments.

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October 8, 2015

**GWO (TSX) \$33.66**  
**TARGET PRICE: \$35.00**  
**POTENTIAL RETURN: 8%**

**Stock Data:**

52-week Low-High	\$29.30 - \$37.70
Shares Outstanding EOP (mln)	997
Market Capitalization (\$mln)	\$31,806
Quarterly Dividend Per Share	\$0.33
Dividend Yield	4.1%
Price-to-Book	1.7x
S&P/TSX Composite Weighting	0.56%

(Year-End 12/31)	2014A	2015E	2016E	2017E
EPS (Excl. Trust Unit Conv.)	\$2.55	\$2.69	\$2.79	\$3.10
Y/Y Growth	15%	6%	4%	11%
Core EPS	\$1.95	\$2.03	\$2.19	\$2.48
Y/Y Growth	7%	4%	8%	13%
Dividend / Share	\$1.23	\$1.30	\$1.35	\$1.41
F/D Avg. Shares	1,000	998	997	997
<b>Book Value / Share</b>	<b>\$ 16.80</b>	<b>\$ 19.89</b>	<b>\$ 21.56</b>	<b>\$ 23.24</b>
<b>Price / Book</b>	<b>1.90x</b>	<b>1.60x</b>	<b>1.48x</b>	<b>1.37x</b>
Price / Core Earnings	16.3x	15.7x	14.6x	12.9x
Net Income to Common	2,546	2,685	2,780	3,085
<b>Core Earn. from Ops.</b>				
Canada	1,269	1,260	1,407	1,562
United States	387	425	445	523
Europe	879	930	1,000	1,112
Corporate	(24)	(21)	(17)	(20)
<b>Core Earn. (pre-tax)</b>	<b>2,511</b>	<b>2,595</b>	<b>2,835</b>	<b>3,177</b>
Taxes	(458)	(456)	(525)	(588)
Putnam (after-tax)	-	-	-	-
Irish Life Group (after-tax)	28	16	-	-
NCI and Pref. Dividends	(126)	(131)	(128)	(117)
<b>Core Earn. (after-tax)</b>	<b>1,955</b>	<b>2,024</b>	<b>2,182</b>	<b>2,472</b>



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**Stock Rating: Underperform**  
**Risk Rating: Below Average**

Industry Rating (Insurance): Overweight  
 (NBF Economics & Strategy Group)

## Great-West Lifeco

### COMPANY PROFILE

GWO is a Canadian financial services holding company that is headquartered in Winnipeg, Manitoba. It is the second largest Canadian lifeco by market capitalization and provides life insurance, wealth management, and reinsurance products to clients in the United States, Canada, and Europe. Power Financial Corporation – a Canadian financial services holding company – owns the majority of GWO (67% ownership of common shares), which, in turn, is majority-owned by the holding company, Power Corporation of Canada (66% ownership of common shares). The Desmarais Family Residuary Trust has a controlling voting share in Power Corporation of Canada.

### INVESTMENT HIGHLIGHTS

**Underperform Thesis.** GWO faces several operational headwinds that will dampen earnings growth in the near term. The company announced a substantial (and costly) restructuring program to transform its U.S. retirement services platform, Empower Retirement, to drive better long-term efficiency and effectiveness. Meanwhile, Putnam Investments continues to generate weak “core” earnings and IFRS net losses, despite reallocating Putnam’s money-losing retirement services business to Great-West Financial and despite removing adjustments to the fair value of share-based payments from Putnam’s IFRS financials. Despite favourable fund performance, we do not foresee demand dynamics shifting in Putnam’s favour as investors pivot toward passive management products. As such, these headwinds compel us to maintain our Underperform rating.

**Enviably Canada Platform.** GWO benefits from excellent market presence in all Canadian life insurance segments, including annuities and segregated funds. This presence enabled its Canadian platform to generate double-digit returns on equity over the last four quarters and mid-single digit earnings growth over the same period.

**Empower Retirement restructuring charges in the United States.** During the Q2 f2015 earnings conference call, GWO announced a multi-year plan to integrate and streamline its U.S. retirement services platform, Empower Retirement, which will result in a \$150 million restructuring charge. While the company expects the initiative will drive earnings growth via scale, cost synergies and market penetration, management did not provide any payback guidance in terms of quantum, scope or timing.

**Europe mixed outlook.** Over the last year, Irish Life Group (ILG) has outperformed GWO’s initial projections by exceeding management’s previously stated synergy target by 10%. ILG is a promising growth platform despite concerns about economic growth in Ireland. By contrast, GWO’s UK annuities business continues to struggle due to the April 2015 changes to tax rules governing U.K. pensioner access to defined contribution plans (announced in March 2014). GWO’s U.K. annuities business observed double-digit quarter-over-quarter sales declines in every quarter between Q1 f2014 and Q1 f2015. GWO has responded by introducing a new suite of retirement “draw-down” products. While we suspect it will take some time before these products garner market acceptance, continued sequential growth in U.K. sales will ease a long-running valuation headwind for GWO.

### RISK FACTORS

Several operational headwinds at Putnam and Empower Retirement will dampen earnings growth in the near term. Long term, GWO’s earnings could come under risk from credit concerns in the Eurozone. Furthermore, a prolonged period of low interest rates could weaken GWO’s long term profitability.

### VALUATION

**GWO rated Underperform; price target at \$35.** This implies a P/B multiple one year from today of 1.65x vs. 1.84x BVPS at present.

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September 15, 2015

**IGM (TSX)** **\$35.45**  
**TARGET PRICE:** **\$42.00**  
**POTENTIAL RETURN:** **24.8%**

52-week range	\$34.02 - \$52.94
Shares Outstanding (mln)	247.5
Market Capitalization (\$ mln)	\$8,773

Fiscal Year End: Dec. 31

(\$Million)	2015E	2016E	2017E
Management Fees	\$2,063	\$2,158	\$2,292
Total Revenue	\$3,046	\$3,167	\$3,352
Operating Expenses	(\$1,635)	(\$1,719)	(\$1,811)
Wealth Management EBITDA	\$1,411	\$1,447	\$1,541
Core Net Income	\$805	\$830	\$903
Core EPS (FD)	\$3.23	\$3.35	\$3.64
Price / Earnings	11.0x	10.6x	9.7x
EBITDA per share	\$5.21	\$5.35	\$5.69
Price / EBITDA	6.8x	6.6x	6.2x

Financial Data: (Quarter-End 06/30/2015)

Book Value per Share	\$18.84
Price/Book Value	1.9x
Quarterly Dividend per Share (declared)	\$0.5625
Dividend Yield	6.3%
Payout Ratio (L4Q)	76.0%



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## Stock Rating: Sector Perform Risk Rating: Average

Industry Rating (Diversified Financials): Market Weight  
(NBF Economics & Strategy Group)

## IGM Financial Inc.

### COMPANY PROFILE

IGM Financial Inc. is one of Canada's largest managers and distributors of mutual funds and other managed asset products, with over \$145 billion in total assets under management. IGM Financial primarily operates through Investors Group, Mackenzie Financial Corporation and Investment Planning Counsel. The company is majority-owned by Power Financial Corporation (TSX: PWF).

### INVESTMENT HIGHLIGHTS

IG's proprietary and maturing distribution network of over 5,000 consultants, as well as a broad selection of funds, should help partially offset the segment's relatively weak fund performance and premium fund pricing.

However, industry sales momentum and the rotation into equities was dented by steep oil price declines and global growth concerns, which may continue to impact equity markets and sales performance.

Efficiencies of scale afforded by a combined managed assets portfolio of over \$145 billion, as well as a proprietary distribution platform, allow IGM to drive the highest EBIT margins within the peer group.

### RISK FACTORS

IG has painstakingly developed its in-house distribution platform over time. We attribute IG's strong asset retention, leading average management fees and superior profit margins to the firm's distribution network. Therefore, material consultant attrition would erode IG's primary competitive advantage. Also, should IG's poor fund performance persist for an extended period, we are not confident that the strength of IG's distribution platform alone will suffice to offset fund redemptions.

### VALUATION & RECOMMENDATION

Our \$42 price target is derived using a sum-of-the parts valuation. We use a target EV/EBITDA multiple related to IGM's wealth management operations of 7.0x our blended f2016/f2017 estimates, which is 1.5x below the average historical trading multiple. The target multiple for IGM represents a discount to that for CIX (9.0x) and a premium to that for AGF (4.0x). Among other things, this reflects AUM growth that is roughly in line with the industry average.

At 6.6x our 2016 EBITDA estimate, we believe current valuation appropriately reflects the earnings growth outlook. Over the longer term, we believe positive sales momentum across both major subsidiaries will drive a re-rating of the shares towards the average historical trading multiple; however, current valuation appears to appropriately reflect potential headwinds. In the meantime, the 6.3% yield is attractive.

We rate the shares Sector Perform.

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October 8, 2015

**L (TSX)** **\$66.79**  
**TARGET PRICE:** **\$76.00**  
**POTENTIAL RETURN:** **15.3%**

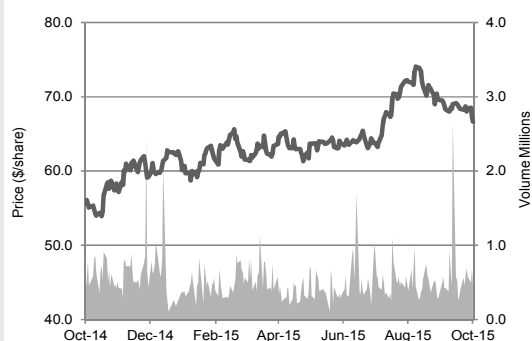
52-week range	\$74.45 - \$53.26
Shares Outstanding (mln)	412.0
Free Float	57%
Market Capitalization (\$ mln)	\$27,517

**Fiscal Year End: December 31**

	2014A	2015E	2016E
Sales (mln)	\$42,611	\$45,091	\$46,111
EBITDA	\$3,227	\$3,576	\$3,876
EPS (FD)	\$3.14	\$3.47	\$4.20
P/E	21.3x	19.2x	15.9x

**As at: Q2 2015**

Cash (mln)	\$1,337
Total Debt (mln)	\$11,842
Net Debt (mln)	\$10,505
Net Debt/Capital	44%
BVPS	\$31.44
Dividend per share	\$1.00
Dividend Yield	1.5%



Source: Thomson

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**Stock Rating: Outperform**  
**Risk Rating: Below Average**  
 Industry Rating (Food Retailing): Underweight  
 (NBF Economics & Strategy Group)

## Loblaw Companies Ltd.

### COMPANY PROFILE

Loblaw is the largest food retailer in Canada. Loblaw has a multi-banner, multi-format strategy and operates conventional, superstore and hard discount stores. Loblaw also operates Shoppers Drug Mart, which is the largest drug retailer in Canada.

### INVESTMENT HIGHLIGHTS

#### Integrating Shoppers Drug Mart and capturing efficiencies

A key opportunity will be integrating the Shoppers Drug Mart acquisition. The company has indicated synergy potential of \$300 million, to be achieved by the end of 2016. We believe that Loblaw will be able to exceed its target; progress so far has been ahead of expectation. In addition, Loblaw should also capture synergies related to its IT initiatives, including the implementation of SAP. Loblaw is expected to fully implement SAP by the end of 2015.

#### Store rationalization plan / grocery backdrop remains accommodative

Management will close 52 unprofitable stores by Q2/16. All else equal, this will support annualized EBIT by \$35-\$40 mln, or 1-2% to growth. Sales will be reduced by \$300 mln, or less than 1%. The company will incur a charge of \$120 mln (\$45 mln realized in Q2/15). We believe that grocery conditions remain accommodative given supportive inflation (stable/slightly declining in the near term) and low industry square footage growth.

#### Slightly favourable update to guidance

Management issued favourable commentary regarding the near-term outlook. For instance, the 2015 synergy guidance target was increased to exceeding \$100 million from approaching \$100 million previously; NBF remains at \$115 million. The company advanced its de-leveraging target to 2015 from Q1/16 previously; the implication is that buybacks of 2-3% can start sooner than originally guided to. We model share repurchases beginning in Q4/15.

### RISKS

We believe that the largest risks for Loblaw are industry conditions and execution. The number of transformative organizational activities ongoing at Loblaw is significant, including: corporate renewal (focus on IT) and the integration of Shoppers Drug Mart.

### VALUATION

#### Maintain Outperform rating; price target is \$76

Our price target is based on a sum-of-the-parts methodology.

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September 29, 2015

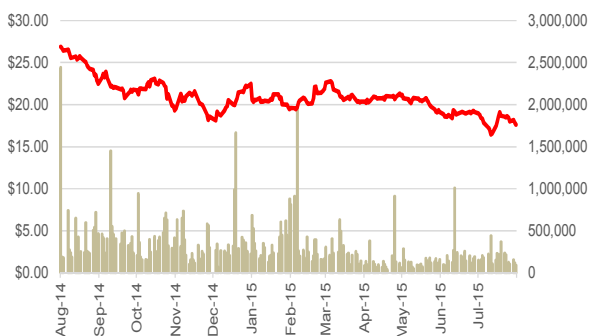
**MTL (MTL-T) \$17.74**  
**TARGET PRICE: \$20.00**  
**DIVIDENDS PER SHARE \$1.20**  
**POTENTIAL RETURN: 19.5%**

Shares Outstanding (mln)	91.7
Market Capitalization (mln)	\$1,681.9
Net Debt (mln)	\$599.6
MTL Enterprise Value (mln)	\$2,281.5
52-week High-Low	\$25.76 - \$16.45
Average Weekly Volume	1,442,852
Net Book Value / Share	\$5.19

Estimates	2014	2015E	2016E
Revenue (mln)	\$ 1,427.9	\$ 1,258.3	\$ 1,476.1
EBITDA (mln)	\$ 286.4	\$ 235.1	\$ 278.0
Cash Flow per Share	\$ 0.64	\$ 2.13	\$ 2.77
Dividend per Share	\$ 1.20	\$ 1.20	\$ 1.20
Earnings per Share	\$ 1.04	\$ 0.34	\$ 0.70

Valuation	-	-	-
Balance Sheet	15.4x	16.8x	15.4x
Debt/EBITDA1	9.4x	8.6x	7.9x
Interest Coverage	10.1x	9.3x	8.5x

All amounts in Canadian dollars unless otherwise noted.



Source: ThomsonONE, NBF

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**Stock Rating: Sector Perform**  
**Risk Rating: Above Average**  
 Industry Rating (Oilfield Services): Market Weight  
 (NBF Economics & Strategy Group)

## Mullen Group Ltd.

### COMPANY PROFILE

Mullen Group Ltd. ("MTL" or "Mullen") began in 1949 as a one-truck operation in Alberta and has since grown to become the second largest trucker (by fleet) in Canada and the largest trucking service provider to Canada's oil and gas industry. Growth has come through acquisition and has rewarded shareholders with impressive five- and 10-year returns at or near the top of the peer group. MTL operates a decentralized network of 25 operating entities with roughly equal parts exposure to drilling (mud, pipe, and rig transport), production (crude hauling), oil sands (heavy haul), and trucking (TL, LTL, logistics). Defensively positioned and with a proven management team at the helm, we believe Mullen is well suited to benefit from the anticipated infrastructure build out in Western Canada over the coming years.

### INVESTMENT HIGHLIGHTS

**A track record for accretive growth ...** Over the last 10 years MTL has added over 30 companies at an average EV/EBITDA purchase multiple of 4.5x. Shareholders have been rewarded well from this strategy with five- and 10-year CAGR of 9.2% and 15.6%, respectively, at or near the top of senior energy service peers.

### ... in a defensive model ...

MTL likely has the most consistent EBITDA margins in our universe owing to very low levels of operating leverage in their cost structure. Additionally, Mullen has roughly equal diversification to four revenue-generating areas: drilling, production, oil sands/infrastructure and the general economy.

### ... with an interesting set of long-term call options.

We note multiple medium- and long-term tailwinds present for MTL's business in the form of (1) LNG infrastructure build-out; (2) general pipeline construction; (3) overall transportation constraints buoying pricing; and (4) continuing M&A.

### RISK FACTORS

Differentials on heavy oil have become increasingly volatile as takeaway constraints have impacted the economics on crude oil in Canada and anything impacting producers' ability/desire to spend has a detrimental effect on MTL's activity levels. Mitigating this risk is business units tied to production (which can still be busy in declining rig count environment) and infrastructure development (which will be busy alleviating takeaway constraints).

Recent reports suggest truckers are aging at a faster rate than the rest of the working population and there could be a shortage of 25,000 to 33,000 drivers by 2020 with the largest gap in Alberta (where demand is projected to grow strongest). As trucking pervades nearly all of Mullen's operating entities, MTL will need to seek to mitigate the negative impacts of a shrinking workforce (higher labour costs, margin pressure, growth constraints) in the coming years.

### RECOMMENDATION

We view MTL as an excellent investment opportunity, and believe overall the decision is more of a "when" versus "if" to purchase. In the longer term, we believe a value closer to \$28/sh is likely, as suggested both by our DCF analysis and MTL's recent trend of tangible book value growth, which we suspect has been largely ignored by the market but tends to reward patient investors.

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September 14, 2015

**POU (TSX)** **\$10.75**  
**TARGET PRICE:** **\$24.00**  
**RETURN TO TARGET:** **123%**

**Stock Data Q3/15e**

52-week High-Low (Cdn\$)	\$10.75 - \$66.37		
Shares Outstanding (mln)	106.2		
Free Float Pct	51%		
Net Debt (mln)	\$1,723.0		
Market Cap. (mln)	\$1,141.8		
Enterprise Value (mln)	\$2,864.8		

Production	2014	2015e	2016e
Oil & NGL's (bbls/d)	6,114	19,320	26,910
Nat. Gas (mcf/d)	110,460	173,880	189,540
Boe/d (6:1)	24,524	48,300	58,500
% Nat. Gas	75%	60%	54%

Pricing	2014	2015e	2016e
WTI (US\$/bbl)	\$92.95	\$50.00	\$50.00
AECO (Cdn\$/mcf)	\$4.24	\$2.75	\$3.10
Corp. Oil & NGL's (\$/bbl)	\$68.87	\$38.16	\$44.95
Corp. Nat. Gas (\$/mcf)	\$4.78	\$3.17	\$3.50
Corp. Wellhead (\$/boe)	\$38.70	\$26.69	\$32.02

\* Strip pricing 15/16 (as at 09/01/2015)

Estimates	2014	2015e	2016e
Cash Flow (mln)	\$141.0	\$179.8	\$353.9
CFPS - diluted	\$1.39	\$1.70	\$3.37
CF Netback (\$/boe)	\$14.69	\$10.17	\$16.25
Capex (mln)	\$833.1	\$394.5	\$400.0
Net Debt (mln)	\$1,487.4	\$1,679.1	\$1,725.2

Valuation	2014	2015e	2016e
P/CF	7.7 x	6.3 x	3.2 x
EV/DACF	29.7 x	9.4 x	5.9 x
Net Debt / CF	10.6 x	9.3 x	4.9 x
EV/BOE/D	\$254,032	\$54,694	\$45,946
P/NAVPS	1.0 x		
EV/boe P+P	\$8.25		

Source: Company Reports, NBF Estimates



Source: Bloomberg

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## Stock Rating: Sector Perform

## Risk Rating: Above Average

Industry Rating (Oil & Gas Exploration & Production): Market Weight  
(NBF Economics & Strategy Group)

# Paramount Resources Ltd.

**COMPANY PROFILE (all \$ terms are Cdn)**

Paramount Resources is an intermediate-sized, exploration and production company with a primary focus on liquids-rich natural gas opportunities within the Deep Basin of west central Alberta. The company is guided by an accomplished Board of Directors and seasoned management team, which includes industry veteran, Mr. James (Jim) Riddell (President & CEO).

**INVESTMENT THESIS**

**Extensive and Proven Deep Basin Foothold:** Paramount holds a large, concentrated Deep Basin land base of over 760 net sections with multi-zone access to some of the Western Canadian Sedimentary Basin's most topical and prolific plays (i.e. Duvernay, Montney and Cretaceous gas).

**Owned Infrastructure/Firm Service Contracts:** Recent infrastructure expansions (net processing capacity now stands at >300 mmcf/d), coupled with material firm service agreements should support Paramount's long-term growth objectives, all while improving pricing/cost dynamics.

**Improving Sustainability Outlook:** Paramount could see marked deleveraging of the balance sheet through our forecast period (2015e D/CF of 9.3x migrates to 4.9x in 2016), as cash flow is buoyed by a ramp up in volumes, better pricing realizations and compression of cash costs. Moreover, the recently announced debt financing provides Paramount with an improved liquidity outlook (\$450 million of debt has been termed out to 2023).

**Meaningful Track Record and High Degree of Insider Ownership:** Paramount was founded in 1974 and has been a publicly traded entity since 1978. Insiders own about 50% of shares outstanding, supporting a view that the leadership team is both motivated and closely aligned with shareholder interests.

**ASSET HIGHLIGHTS**

Paramount's principal properties can be divided into four main areas: 1) the Northern operating unit (Birch/Umbach, Liard); 2) the Southern operating unit (Willesden Green); 3) the Grande Prairie operating unit (Karr/Gold Creek, Valhalla); and 4) the Kaybob operating unit (Kakwa, Musreau, Resthaven/Smoky).

**Kaybob Operating Unit:** Situated along the high pressure, liquids-rich fairway of west central Alberta, Paramount's greater Kaybob asset is undoubtedly one of the crown jewels within Paramount's asset portfolio. The property encompasses an estimated 40 mboe/d of production (~80+% of total Q2/15 corporate volumes) and ~300+ mmmboe of P+P reserves (90% of total conventional bookings). Despite having supported a robust level of growth to date, the asset still shows considerable running room, as evidenced by net DGIP estimates for the Montney and Cretaceous gas of ~22 Tcf (70+ Bcf/section) and >10 Tcf (40-160 Bcf/section), respectively (could support a multi-decade inventory of drilling prospects). Furthermore, the property consists of a number of strategic infrastructure investments, including compression and condensate stabilization.

**Montney:** Going forward, the Montney will continue to be one of the primary targets of interest, which will be primarily developed through the use of multi-well pad technology (generally been done in the 6-10 well range). These wells are fairly capital intensive in nature (well costs are estimated at \$10 million); however, economics remain robust given the strong gas rates (~6 mmcf/d on an IP30 basis) and high condensate yields, which have generally been in the 150 bbl/mmmcf range (associated NGLs have typically come in at 90 bbl/mmmcf).

**VALUATION**

Our target price is predicated on a methodology that solely reflects a cash flow multiple and is correlated to an asset value perspective. For POU, our target price is based on a 2016e EV/DACF cash flow multiple of 9.3x, which compares with the peer average EV/DACF target multiple of 10.3x (discounted due to the company's above average leverage).

POU currently trades at 5.9x 2016e EV/DACF and \$46,000 boe/d compared to peers at 7.1x and \$36,000 boe/d.

**RISK FACTORS**

Commodity price fluctuations, sourcing adequate labour and services, reserve estimates, regulatory, financing and key employee risk are the major risk factors applicable to Oil & Gas companies.

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September 14, 2015

**QBR'b (TSX)** **\$28.10**  
**TARGET PRICE:** **\$41.00**  
**POTENTIAL RETURN:** **46.4%**

**Stock Data:**

52-week High-Low (CAD) \$34.70 - \$24.57

Bloomberg/Reuters: QBR/B CN/ca;QBR'b

(YE Dec. 31)	2014a	2015e	2016e
Revenue (mln)	\$3,712.9	\$3,809.6	\$3,927.7
EBITDA (mln)	\$1,406.6	\$1,407.6	\$1,521.7
EPS (ex-charges)	\$1.69	\$1.80	\$2.25
P/E	16.6x	15.6x	12.5x
EV/EBITDA *	6.4x	6.7x	6.0x
Free Cash (mln)	\$214.0	\$183.4	\$360.6
FCF per share	\$1.74	\$1.49	\$2.94

\* Based on forecast net debt

**Financial Data as at: June 30, 2015**

Shares Outstanding (mln)	122.8
Market Value (mln)	\$3,450.7
Net Debt + Convertibles (mln)	\$5,138.2
Common Equity (mln)	\$1,623.1
Net Debt to Capital	74.1%
BVPS / Price/BVPS	\$8.74/3.2x
ROE 2015e	14.0%
Dividend/Yield	\$0.14/0.5%

Daily QBRb.TO 2014-09-16 - 2015-10-01 (TOR)



Source: Thomson Reuters

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**Stock Rating: Outperform**  
**Risk Rating: Above Average**  
 Industry Rating (Telecom Services): Underweight  
 (NBF Economics & Strategy Group)

**Quebecor Inc.****COMPANY PROFILE**

Quebecor Inc. (QBR) serves as the holding company for privately-held Quebecor Media (QMI) which is owned 81.07% by QBR and 18.93% by Caisse de dépôt et placement du Québec. Les Placements Péladeau Inc. controls 64.7% of the votes and 27.1% of the equity of Quebecor Inc.

**INVESTMENT HIGHLIGHTS****Leveraging strong cable asset which anchors story.**

Quebecor is a media and telecommunications powerhouse in Quebec, dominating the cable, TV, and newspaper markets in the province. Leveraging its superior cable asset and broadcasting content from TVA, the company continues to enjoy a market leadership position through its Vidéotron business unit that has been further complemented by the launch of its new Wireless network in late 2010. While secular pressures continue to hamper its Media operations, evolving restructuring helps to partly mitigate top-line pressures.

**Vidéotron remains the company's source of free cash flow.**

Despite product maturity and an increase in competitive pressures, basic TV performance remains the best among Canadian cablecos while household ARPU continues to tick higher, driven by the company's focus on selling the bundle and leveraging its unique French content. Growth in Revenues is forecast to track within the low-single digit range, with the introduction of the iPhone on March 28, 2014 helping to deliver stronger Wireless ARPU and subscriber gains while also driving an increase in handset COA. With respect to the prospect of a national Wireless rollout, management continues to review all options, but we continue to think that it will simply retain its spectrum outside of Quebec for investment purposes.

**Media segment facing evolving secular pressures.**

Representing about 22% of anticipated consolidated revenue in 2015 and less than 3% of total forecast EBITDA, the company's Broadcasting and Publishing operations face softening advertising markets and changing consumer behaviour which require continuous restructuring to partly mitigate top-line secular pressures. The addition of Vision Globale added further diversification to the Media segment, but the purchase was costly and proved significantly dilutive to minority shareholders of TVA.

**Quebecor steadily gaining greater share of Quebecor Media.**

On Oct. 3, 2012, QBR increased its stake in QMI to 75.4% from 54.7% as the Caisse reduced its ownership to 24.6%. At the time of the deal, QMI's implied value was \$6.1 billion with an implied LTM multiple of 6.8x. On Sept. 9, 2015, the Caisse further reduced its holdings in QMI to 18.93% in a deal which saw QBR's interest in QMI rise to 81.07% and the latter's implied value jump to \$7.1 billion with a multiple of 8.3x LTM EBITDA or closer to 8.0x when adjusting for the value of the wireless spectrum licences outside of Quebec.

**RISK FACTORS**

Key risks to consider for Vidéotron include Bell's stepped up competition associated with the evolving rollout of its IPTV service. We note that incremental related capex required to strengthen the Cable network would put our current valuation at risk. While we don't expect wireless activity to be pursued outside of Quebec, any such foray would impact our investment thesis. Inasmuch as secular challenges persist for Media, it remains to be seen if and when an NHL hockey team in Quebec City becomes part of the mix.

**VALUATION****QBR is rated Outperform with a \$41 target price.**

Our target, based on the 2016E metric in our NAV, implies EV/EBITDA of 7.8x 2015E, 7.1x 2016E, and 6.4x 2017E. QBR sits on NBF's Action List.

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September 14, 2015

**RCI.B (TSX)** **\$43.61**  
**TARGET PRICE:** **\$47.00**  
**POTENTIAL RETURN:** **12.2%**

Stock Data:			
52-week High-Low (CAD)	\$47.50 - \$40.72		
Bloomberg/Reuters: CAD	RCI.B CN/ca; RCI.TO		
(YE Dec. 31)	2014a	2015e	2015e
Revenue (mln)	\$1,285.0	\$13,386.6	\$13,655.5
EBITDA (mln)	\$5,019.0	\$5,071.1	\$5,166.7
Adjusted EPS	\$2.96	\$2.87	\$2.94
P/E	14.7x	15.2x	14.8x
EV/EBITDA *	7.4x	7.5x	7.3x
FCF/Share	\$2.78	\$2.97	\$2.46
FCF Yield	6.4%	6.8%	5.6%

\* Based on forecast net debt, securitizations, prefs, NCI

Financial Data as at:		June 30, 2015
Shares Outstanding (mln)		514.7
Shares Outstanding FD (mln)		516.7
Market Value (mln)		\$22,535.3
Net Debt (mln)		\$15,971.0
Preferred Equity (mln)		-
Securitized (mln)		-
Minority Interest (mln)		-
Common Equity (mln)		\$5,468.0
Leverage per company		3.2x
BVPS / Price/BVPS		\$10.62/4.1x
2014 Annualized Dividend		\$1.92
Dividend Yield		4.4%



Source: Thomson Reuters

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**Stock Rating: Sector Perform**  
**Risk Rating: Average**  
 Industry Rating: Underweight  
 (NBF Economics & Strategy Group)

## Rogers Communications

### COMPANY PROFILE

Rogers is a diversified Canadian communications and media company providing a wide range of services including wireless, cable TV, Internet, and telephony for residential and business customers, while owning conventional & specialty TV, radio, publishing, online, and sports assets. It is the largest national wireless carrier and second largest cable operator in Canada.

### INVESTMENT HIGHLIGHTS

#### Wireless churn higher & subscriber gains lagging amidst more disciplined approach.

While Rogers is still capitalizing on evolving growth in smartphone penetration of its dominant postpaid base, it has ceded industry-leading churn to TELUS over recent years, with this metric moving higher of late amidst greater discipline to focus more on customers with higher lifetime value. After six quarters of declines in ARPU due to lower priced roaming rates and the adoption of simplified price plans, postpaid ARPU has achieved renewed, albeit relatively modest growth since 4Q14. Efficiencies driven by the rollout of LTE and greater discipline on retention spending should help drive modest EBITDA growth post-1H15.

#### Cable supremacy in Ontario under attack from Bell.

Rogers is Canada's second largest cable company, but ranks first in terms of number of basic TV subscribers, with over 90% of its base in Ontario. Although Bell continues to roll out IPTV as part of an enhanced bundle driven by its evolving deployment of fibre, Rogers still boasts a superior network across most of its footprint. That said, since the start of 2013, the company has seen greater Basic TV losses than expected due to aggressive promotions from Bell, with wireless substitution and some Bell winbacks steadily eroding its telephony base. Rogers' broadband advantage and gains among small- and medium-sized businesses have helped maintain growth in Internet subscribers, but these have become rather muted each quarter.

#### Media enjoyed growth from NHL contract but latter's return remains to be proven.

While leveraging its stable of TV, radio & publishing assets along with the Blue Jays and Rogers Centre, Media remains well-positioned to capitalize on cross-selling opportunities across the Rogers organization including its 37.5% stake in MLSE. A weak advertising backdrop and secular challenges were trumped over the past year by contributions from the company's 12-year deal with the NHL whose growth potential is being closely monitored.

### RISK FACTORS

Canadian economic growth or that of Rogers' incumbent province could soften, competitive intensity in Wireless remains high, Cable faces secular issues as well as a stronger Bell bundle, while cord-cutting and/or cord-shaving of TV services are headwinds. Finally, regulation and government intervention are things of which to always be mindful.

### VALUATION

#### We rate Rogers as Sector Perform with a target of \$47.

Our target is based on a straddling of the 2015E/2016E metrics in our adjusted DCF and a straddling of the 2016E/2017E values in our NAV, with implied EV/EBITDA multiples of 7.9x 2015E, 7.7x 2016E, and 7.5x 2017E.

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October 8, 2015

**SAP (TSX)** **\$31.27**  
**TARGET PRICE:** **\$35.00**  
**POTENTIAL RETURN:** **13.7%**

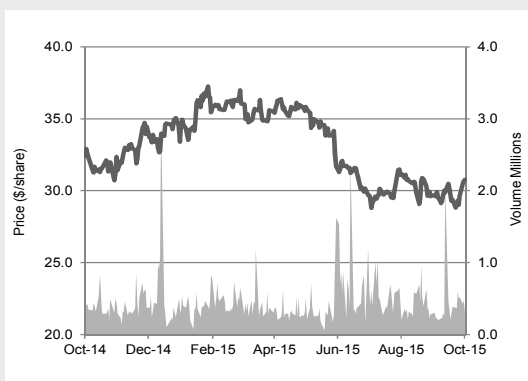
52-week range	\$37.58 - \$28.43
Shares Outstanding (mln)	399.1
Free Float	65.4%
Market Capitalization (mln)	\$12,480

**Fiscal Year End: Mar 31**

	F2015A	F2016E	F2017E
Sales (mln)	\$10,657.7	\$11,166.9	\$11,725.5
EBITDA (mln)	\$1,061.7	\$1,160.7	\$1,264.8
EPS (FD)	\$1.46	\$1.59	\$1.81
P/E	21.5x	19.6x	17.2x
EV/EBITDA	13.3x	12.2x	11.2x

**As of: Q1 F2016**

Cash (mln)	\$177
Total Debt (mln)	\$1,870
Net Debt (mln)	\$1,693
Net Debt/Book Capital	31.5%
BVPS	\$9.22
Dividend per share	\$0.54
Dividend Yield	1.7%



Source: Thomson, NBF

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## Stock Rating: Sector Perform

### Risk Rating: Average

Industry Rating (Food, Beverage & Tobacco): Underweight  
 (NBF Economics & Strategy Group)

## Saputo Inc.

### COMPANY PROFILE

Saputo produces, markets and distributes food products, primarily dairy, including cheese, fluid milk, dairy ingredients and snack-cakes. The company has grown over 50 years from a family-run business to become a leading dairy processor in the world.

### INVESTMENT HIGHLIGHTS

#### Canada's expected entry into the Trans-Pacific Partnership (TPP) is not a large concern

On Oct. 5, 2015, an agreement in principle was reached between the 12 countries regarding the TPP. Government reports indicate that Canada has made limited concessions to its dairy supply management system. Incremental duty-free access to Canada's dairy industry is indicated at 3.25% of current annual production. Details are not fully available; however, we estimate a modest negative impact related to implementation of the TPP, which we believe could be offset through international operations.

#### Tough commodity backdrop; however, management is optimistic

Competitive market conditions and low international commodity prices are expected to persist until early calendar 2016; notwithstanding, looking forward, progress with efficiency initiatives and the potential for lower input prices, particularly in the International sector, should provide a partial positive offset. Moreover, Saputo expects gradual progress in its Canadian operations.

#### Acquisition opportunities remain in focus

Saputo continues to seek acquisitions globally (Oceania, South America, U.S.). We believe that Saputo has a solid balance sheet which can support an acquisition of over \$2 billion, without issuing equity (assuming average acquisition parameters).

### RISK FACTORS

The dairy industry is subject to agriculture and government regulatory risks. Saputo's growing international presence also exposes the company to risk related to foreign currency movements and integration risk related to the company's acquisition-driven growth strategy.

### VALUATION

**Maintain Sector Perform rating; price target is \$35.00**

We value Saputo at 19.5x our F2017 EPS estimate.

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September 14, 2015

**SJR.B (TSX)** **\$25.59**  
**TARGET PRICE:** **\$28.50**  
**POTENTIAL RETURN:** **16.0%**

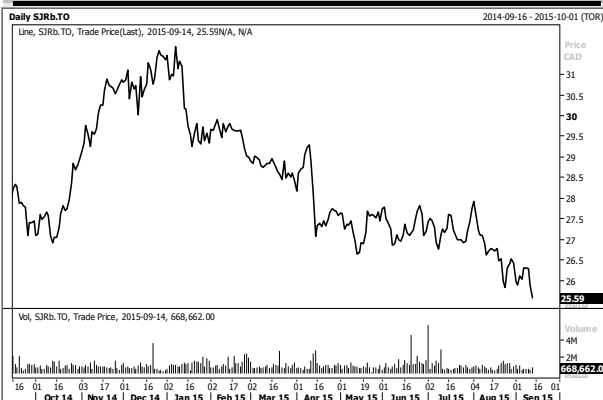
**Stock Data:**

52-week High-Low (CAD) \$31.93 - \$25.44  
 Bloomberg/Reuters: CAD SJR/B / SJR'B-T

(FYE Aug. 31)	2014a	2015e	2016e
Revenue (mln)	\$5,246	\$5,484	\$5,543
EBITDA (mln)	\$2,262	\$2,384	\$2,433
Adjusted EPS	\$1.78	\$1.85	\$1.81
P/E	14.4x	13.8x	14.1x
EV/EBITDA	7.1x	7.3x	7.0x
FCF/Share	\$1.00	\$1.21	\$1.51
FCF Yield	3.9%	4.7%	5.9%

**Financial Data as at: May 31, 2015**

Shares Outstanding (mln)	472.0
Float (mln)	419.7
Market Value (mln)	\$12,079
Net Debt as per B/S (mln)	\$5,335
Preferred Equity (mln)	\$293
Common Shareholders' Equity (mln)	\$5,183
Leverage per company	2.3x
BVPS / Price/BVPS	\$11.51/2.2x
ROE 2015e	15.5%
Dividend/Yield	\$1.19/4.6%



Source: Thomson Reuters

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**Stock Rating: Sector Perform**  
**Risk Rating: Average**  
**Industry Rating: Underweight**  
 (NBF Economics & Strategy Group)

## Shaw Communications Inc.

**COMPANY PROFILE**

Shaw Communications Inc. is a diversified communications & media company and is the largest cable operator in Canada based on revenue-generating units. It serves roughly 3.4 million customers with TV, Internet, Home Phone, telecommunications services, and satellite direct-to-home services. It also operates conventional TV network Global Television and has stakes in 20 specialty TV channels through Shaw Media.

**INVESTMENT HIGHLIGHTS****Organic growth rather muted amidst competitive pressures.**

Beyond the maturity of its core cable operations, greater competition from TELUS over the past few years, as the latter's IPTV service has steadily gained traction along with the telco's Optik-related bundles, has materially decelerated growth in Shaw's revenues and EBITDA. Although f2015 guidance still points to EBITDA growth coming in at the lower end of 5%-7%, implied organic moves seem to point to flattish revenues and an EBITDA gain of perhaps 1%. A weak 1H15 was expected to give way to better traction in 2H and though growth has improved, subscribers metrics have disappointed. Excluding an accelerated capex program which is expected to run its course in f2015, adjusted FCF is posting strong gains, but with all capex included, the company's FCF profile appears relatively flat.

**Satellite & Media previously rounded out purely Canadian story anchored by Cable.**

While Cable accounts for over 60% consolidated revenues and nearly 70% of total EBITDA, it's complemented by the second largest national direct-to-home distributor of satellite TV service and one of the largest domestic media platforms. An evolving erosion of satellite TV subscribers continues to be managed by the company, while the media operation faces growing challenges amidst changes in advertising and consumer habits. Besides over-the-top alternatives attracting a lot of headlines as to the prospect of stimulating more cord-cutting, new CRTC regulations next year are set to offer Canadians, at least in theory, greater flexibility in how they bundle TV services with the potential of more cord-shaving.

**ViaWest acquisition added U.S. element.**

The Denver-based data centre operator was acquired in early f2015. Its approximate revenues of US\$170 million and EBITDA of nearly US\$70 million, along with related FX tailwinds, have been Shaw's main driver of top-line growth and profits over the past year. As for FCF, ViaWest is likely to only contribute \$10 million per year over the near future as a result of growth investments.

**RISK FACTORS**

Canadian economic growth or that of Shaw's footprint could soften, ongoing pressure in Cable from improved telco bundles, the absence of a wireless platform and wireless substitution, ongoing secular pressures facing conventional TV in addition to concerns regarding cord-cutting and/or cord-shaving and rising programming costs are issues.

**VALUATION****We rate Shaw as Sector Perform with a target of \$28.50.**

Our target is based on the average of the adjusted f2015E metric in our DCF and f2016E value in our NAV, with implied EV/EBITDA of 7.8x f2015E, 7.6x f2016E & 7.4x f2017E.

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September 17, 2015

**SCL (TSX)** Cdn\$27.76  
**TARGET PRICE:** Cdn\$37.00  
**POTENTIAL RETURN:** 35%

**Cdn\$**

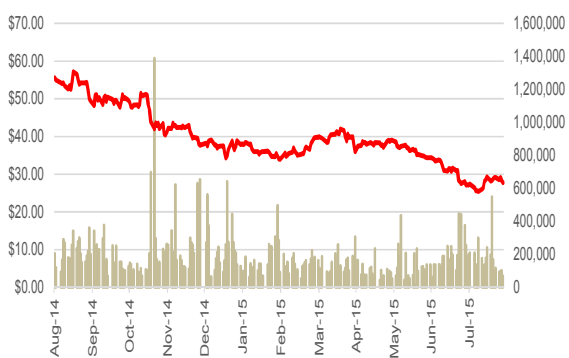
52-week High	\$57.17
52-week Low	\$25.40
Shares Outstanding (fd mln)	65
Market Capitalization (Cdn\$ mln)	1,791

**Fiscal Year End: Dec. 31**

Cdn\$	2014a	2015e	2016e
Sales (mln)	\$1,890.0	\$1,668.0	\$1,754.0
adj. EBITDA (mln)	337.0	200	218
FFO/sh	\$4.08	\$2.51	\$2.74
EPS	\$1.46	\$1.03	\$1.36
EV/adj. EBITDA (ml)	6.2x	10.3x	9.2x

**As at June 30, 2014**

	Cdn\$
Cash (mln)	\$165.4
Debt (mln)	\$444.2
Net Debt (mln)	\$278.9
Cash per share (fd)	\$2.56
BVPU	\$15.76
Enterprise Value (\$mln)	\$2,069.4



Source: ThomsonONE, NBF

■ Volume — Price

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**Stock Rating: Outperform****Risk Rating: Above Average**

Industry Rating (Oil and Gas Services): Market Weight  
 (NBF Economics & Strategy Group)

**ShawCor Limited****COMPANY PROFILE**

- ShawCor LTD. (SCL) primary business is pipe coating and related services with a worldwide presence. Today, ShawCor operates eight business units servicing the pipeline and pipe service market, as well as the petrochemical and industrial market. Its biggest division, Bredero Shaw, is the largest stand-alone pipe coating company in the world. Pipe coating, which is used to protect the pipe from corrosion and other harmful events, is becoming a more specialized aspect of pipeline infrastructure given the new sources of oil & gas and increasing need for pipeline integrity amid rising regulatory scrutiny. ShawCor is an international player with over 75 offices and facilities and about 8,000 employees located throughout the world. It has been public since 1969.

**INVESTMENT HIGHLIGHTS**

- SCL has consistently accounted for over 25-30% of overall available pipe coating projects throughout the world.

- It is a market leader in its other divisions too, as it maintains a #1 or #2 position in most of its eight divisions.

- As new oil & gas production shifts to more unconventional sources (e.g., offshore/deepwater, oil sands), SCL has been able to keep up with new technological demands. The company has over 430 patents (awarded and pending) and three Research & Development (R&D) facilities

- We believe ShawCor has an opportunity to significantly increase revenue through organic growth opportunities. Based on our assessment of the market, we believe there are more than \$4 billion in sales growth opportunities over the next 4-5 years. This includes growth in Flexpipe composite pipe demand, offshore/deepwater projects, applications for its modular plants, additional Oil Country Tubular Goods demand and new insulation solutions used in oil sands.

- Over the next five to ten years integrity management for gathering lines in the US and Canada could add another \$3.5 billion/yr in sales.

**RISK FACTORS**

- The company may purchase companies with the issuance of shares.

- The Company has maintained a #1 or #2 market leadership in most of its business divisions and continues to invest in new technologies to keep ahead of its competition. However, increasing competitive pressure, SCL will need to remain aggressive.

- Economic forecasts will likely be in flux over the foreseeable future. Our forecast assumes relatively steady oil prices as well as modest economic growth. Should the global economy see a pronounced downturn, our estimates would most certainly have to be adjusted downward.

**VALUATION**

ShawCor is an industry leader with great long term prospects. We believe patient investors will be rewarded in the current oil price environment. In addition, if SCL is successful in growing its less cyclical businesses, volatility should decline. We recently reduced our target to reflect the current reduced activity related to lower oil prices. Having said that, we believe patient investors will be rewarded. We use a 50/50 blend of our long-term DCF (10% WACC) and a 9.5x EV/EBITDA multiple applied to 2016e estimates to arrive at a blended target \$37.00, down from \$50.00 previously. This implies a 35% total return, including a 2.2% dividend.

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September 15, 2015

**TCK'B-T** **\$8.43**  
**TARGET PRICE:** **\$11.50**  
**POTENTIAL RETURN:** **36%**

**Market Data**

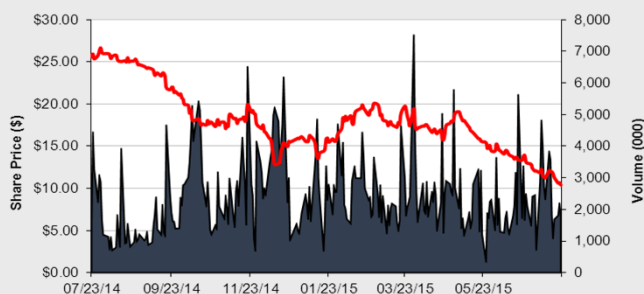
52-Week Trading Range (Cdn\$)	\$23.81 - \$7.08		
Shares Outstanding (mln)	576.2		
Fully Diluted Shares (mln)	593.2		
Fully Financed Shares (mln)	593.2		
Market Capitalization (Cdn\$ mln)	\$4,857		
Working Capital (Cdn\$ mln)	\$2,418		
Long-Term Debt (Cdn\$ mln)	\$8,653		
Enterprise Value (Cdn\$ mln)	\$11,092		
Annual Dividend (Cdn\$)	\$0.30		
Dividend Yield (%)	3.5%		

**Operational Summary**

	2013A	2014A	2015E
Coal Production (000 t)	26,700	24,600	24,000
Copper Production (t)	333,100	340,800	322,200
Zinc Production (t)	937,100	980,000	904,400
Lead Production (t)	204,600	208,200	183,600
Moly Production (000 lb)	5,800	4,700	5,200
Silver Production (000 oz)	21,000	21,600	22,000
Oil Production (000 bbl)	0	0	0

**Financial Summary**

	2013A	2014A	2015E
Revenue (Cdn\$ mln)	\$8,599	\$8,056	\$7,909
EBITDA (Cdn\$ mln)	\$2,348	\$2,435	\$2,184
Net Income (Cdn\$ mln)	\$382	\$419	\$264
Operating CF - Before W/C (Cdn\$ mln)	\$2,004	\$2,124	\$1,849
EPS (US\$)	\$0.63	\$0.73	\$0.47
CFPS (US\$)	\$3.48	\$3.69	\$3.21
NAVPS (Cdn\$)		\$14.05	



Source: Thomson ONE

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## Stock Rating: Sector Perform Risk Rating: Above Average

Industry Rating (Metals & Mining): Market Weight  
 (NBF Economics & Strategy Group)

## Teck Resources Ltd.

**COMPANY PROFILE** (All amounts in Cdn\$ unless noted)

Teck Resources is the largest diversified mining company in Canada, with assets located Canada, United States, Chile, and Peru. Teck is also the world's second largest exporter of seaborne hard coking coal (HCC). Teck's energy portfolio includes a 20% interest in the Fort Hills oil sands project (operated by Suncor Energy 40.8%) and a 100% interest in the Frontier oil sands project.

**INVESTMENT HIGHLIGHTS**

No near-term revenue support from coal prices. With rising supply both domestically in China and via Australian exports, further production cuts will be required to bring the market back in balance. In response to steelmaking coal market conditions, the company had previously announced rotating shutdowns of each coal operation throughout Q3/15. We expect Teck to temper high cost coal production on a quarterly basis in an attempt to maintain positive operating margins.

Credit facility extended to fund debt/capital obligations. Teck ended Q2/15 with ~\$6.5 bln in available liquidity, including; \$1.3 bln in cash and US\$4.2 bln of available credit (including an additional US\$1.2 bln maturing in June 2017). The company has \$8.6 bln of long-term debt with ~\$1.2 bln due from Q3/15 to 2017. Assuming Teck's credit facilities can be extended beyond 2020, the company should have sufficient liquidity to fund capital/financial obligations at spot prices.

Credit rating cut to sub-investment grade. Moody's has reduced Teck's rating to Moody's to Ba1 from Baa3 and maintained a negative outlook citing prolonged commodity price weakness and sizeable investment spending that exceed typical investment grade thresholds through 2017. Although the revision didn't come as a surprise, it will translate into increased refinancing costs going forward. Looking ahead, we expect other major ratings agencies to follow suit and cut Teck's ratings to sub-investment grade.

**RISK FACTORS**

Teck Resources is exposed to the typical risks associated with mining companies, including commodity price risk, currency risk, input costs/labour dispute risk, as well as technical and financial risk.

Despite near-term cash flow coming primarily from the company's coal assets, future growth will come via more capital intensive copper and energy projects (including; QB2, Relincho and Fort Hills). These large-scale projects will expose Teck to larger capital/operating cost inflation and potential delays in development; however under current metal prices we expect that these projects will be delayed until market conditions improve.

**VALUATION**

Our \$11.50 target price is derived from a blend of NAV (50%) plus 7.0x EV/2016E CF (50%). We apply a multiple of 0.90x our project NAV, which includes Teck's producing mines and development projects (at various discount rates) and an in-situ credit for its other resource-bearing properties; plus adjustments for working capital, debt, equity dilution, and corporate activities. We rate shares of Teck as Sector Perform.

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October 8, 2015

**Stock Rating: Sector Perform****Risk Rating: Average****Industry Rating (Consumer Staples): Underweight**  
(NBF Economics & Strategy Group)

## The Jean Coutu Group Inc.

**PJC.A (TSX)** **\$20.29**  
**TARGET PRICE (\$CAD):** **\$23.00**  
**POTENTIAL RETURN:** **15.5%**

52-week range	\$28.95 - \$19.02
Shares Outstanding (mln)	186.9
Market Capitalization (\$ mln)	\$3,792

### Fiscal Year End: February

	2015A	2016E	2017E
Sales (mln)	\$2,814	\$2,876	\$2,935
EBITDA	\$332	\$341	\$344
EPS (FD)	\$1.17	\$1.19	\$1.24
P/E	17.4x	17.1x	16.3x

### Financial Data: As of Q2 F16

Cash (mln)	\$92
Total Debt (mln)	\$0
Net Debt (mln)	-\$92
Net Debt/Capital	-9%
BVPS	\$5.84
Dividend per share (annualized)	\$0.44
Dividend Yield	2.2%



Source: Thomson

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### COMPANY PROFILE

The Jean Coutu Group operates in the Canadian drugstore retailing industry through the franchised banners of PJC Jean Coutu, PJC Clinique, PJC Jean Coutu Santé and PJC Jean Coutu Santé Beauté. The company is regularly voted among the most admired brands in Quebec.

### INVESTMENT HIGHLIGHTS

#### Drug reforms in focus

PJC's shares have been under pressure given concerns regarding a government proposal to remove an existing cap on professional allowances paid by generic manufacturers to pharmacists. If the reforms proceed as indicated, we estimate that professional allowances could increase to 25%-55% from the current cap of 15% (% of generic drug sales). We estimate a high case impact of -\$0.34 to annualized EPS and a low case impact of nil; the base case impact is -\$0.13. Our estimates do not yet reflect potential changes to pharmacy reimbursement as we await pending details. Management indicated that an announcement could be made shortly regarding the Quebec Treasury Board's approval of an agreement between the association québécoise des pharmaciens propriétaires (AQPP) and the Quebec Ministry of Health and Social Services.

#### Balance sheet remains solid

We note that PJC's balance sheet remains strong with adj. net-debt-to-EBITDAR of 1.0x; we estimate excess capital of ~\$4 per share considering a 3.0x adj. net-debt-to-EBITDAR threshold. PJC indicated a reluctance to repurchase shares as part of its NCIB until the pending drug reforms are finalized.

#### New infrastructure expected

Management provided an update on the new headquarters and DC in Varennes, QC. The move into the new headquarters is expected to be completed by the end of calendar 2015 and the shift to the new DC is expected to be completed by June 2016.

### KEY RISKS

The key risks facing PJC include: the potential for further meaningful drug reforms; front store sensitivity to the economic backdrop; operational execution; relationships with franchisees; competition; and brand perception.

### VALUATION

**Maintain Sector Perform rating; price target remains \$23**

Our price target is based on 18.0x our F17/F18 EPS.

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September 14, 2015

**TRI (TSX) \$52.72**  
**TRI (NYSE) US\$39.82**  
**TARGET PRICE: C\$58.00**  
**POTENTIAL RETURN: 13.4%**

**Stock Data:**

52-week High-Low (CAD)	\$54.47 - \$39.45	
52-week High-Low (US)	\$42.64 - \$34.88	
Bloomberg/Reuters: CAD	TRI CN / TRI-T	
Bloomberg/Reuters: US	TRI US / TRI-US	

(FYE Dec. 31)	2014a	2015e	2016e
Revenue (mln)	\$12,605	\$12,258	\$12,519
Adj. EBITDA* (mln)	\$3,348	\$3,411	\$3,663
EPS (ex-amort)	\$1.95	\$1.97	\$2.23
P/E	20.4x	20.2x	17.9x
EV/EBITDA	11.5x	11.4x	10.6x
FCF (mln)	\$1,445	\$1,695	\$1,837
FCF per share	\$1.78	\$2.16	\$2.40

\* Reflects EBITDA ex. non-recurring charges. All figures in USD.

Financial Data as at:	June 30, 2015
Shares Outstanding (mln)	788.9
Float (mln)	331.0
Market Capitalization (mln) (C\$)	\$31,412.1
Net Debt (mln)	\$7,408.0
Common Equity (mln)	\$13,596.0
Net Debt to Capital	35.3%
BVPS / Price/BVPS	\$17.24/2.3x
ROE 2015E	11.6%
Dividend/Yield	\$1.34/3.4%



Source: Thomson Reuters

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**Stock Rating: Outperform****Risk Rating: Average**Industry Rating (Media): Market Weight  
(NBF Economics & Strategy Group)**Thomson Reuters Corporation****COMPANY PROFILE**

Thomson Reuters is the world's leading source of intelligent information for businesses and professionals. With its headquarters in NY and major operations in London and Eagan, Minnesota, the company employs more than 57,000 people. Woodbridge Inc. (controlled by the Thomson Family) owns 457.8 million shares (55% of equity).

**INVESTMENT HIGHLIGHTS****Multi-year transformation of company steadily evolving.**

From an organization that skewed more toward a conglomerate, management is striving to re-orientate the company toward a more streamlined enterprise that has a cohesive strategy, more focussed offering to clients, better communication across businesses, and improved leveraging of resources.

**Cost-cutting to drive margins ahead of revenue growth.**

Although all segments reflected organic growth in Q2/15 for the first time since Q4/11, top-line pressures persist due to secular challenges and especially FX in 2015, particularly in Financial & Risk. Thomson Reuters continues to push harder on streamlining operations and improving margins to gain even greater leverage if and when organic growth proves sustainable. After eliminating 2,500 positions in 2013, the company announced accelerated cost reduction actions with Q3/13 reporting with a further headcount reduction of 3,000 expected to produce at least \$250 million in run-rate savings by the end of 2015. As per TRI's disclosures with Q4/14 reporting, this figure seems to have grown to \$300 million. An extra \$400 million in reduced expenses is also being targeted through 2017.

**Growing cash returns to shareholders – dividend & NCIB.**

With a halving of M&A-related spending post-2013 after averaging \$1.3 billion in the prior three years, TRI returned \$2.1 billion to shareholders in 2014 consisting of \$1.0 billion of share repurchases and \$1.1 billion of dividends. To accommodate its evolving buyback, TRI increased its target leverage ratio to 2.5x from 2.0x with the reporting of Q3/13 results. At the end of Q2/15, leverage stood at 2.2x. The company has increased its dividend in each of the past 22 years, with the current dividend reflecting a 2015E payout of approximately 62%.

**RISK FACTORS**

While management has historically done a good job at improving TRI's competitive position in the context of product launches, some product introductions have taken longer, including its flagship Eikon product, whose initial stumbles have, however, since been overcome. TRI faces a number of strong competitors that excel in certain niches and enjoy solid market shares. Greater regulation across the financial sector and a slowdown across the global economy would pressure TRI's performance, especially in Financial & Risk. Finally, FX represents a strong headwind in 2015 given a materially appreciating USD.

**VALUATION****Thomson Reuters is rated Outperform with a Cdn\$58 target price.**

Our target of Cdn\$58 is based on the 2016E metric in our NAV translated from USD at 1.30 and implies an EV/EBITDA multiple of 12.5x 2016E.

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September 14, 2015

**TCL.a (TSX)** **\$18.06**  
**TARGET PRICE:** **\$20.00**  
**POTENTIAL RETURN:** **14.5%**

**Stock Data:**

52-week High-Low (CAD) \$19.55 - \$13.18  
 Bloomberg/Reuters: CAD TCL/A CN / TCL'a

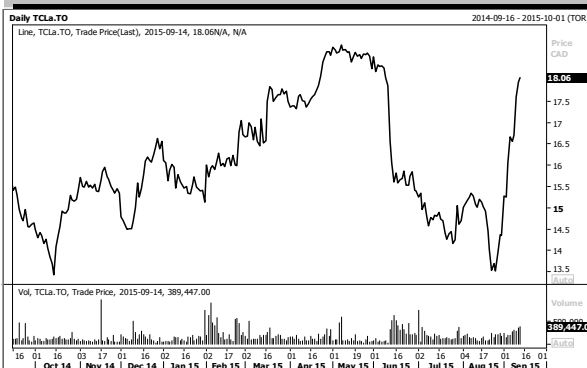
(FYE Oct. 31)	2014a	2015e	2016e
Revenue (mln)	\$1,990.4	\$1,997.7	\$2,008.6
EBITDA (mln)	\$354.1	\$383.7	\$391.3
EPS (ex-charges)	\$2.11	\$2.41	\$2.42
P/E	8.6x	7.5x	7.5x
EV/EBITDA	5.0x	4.4x	4.2x
Free Cash (mln)	\$268.6	\$217.4	\$184.2
FCF per share	\$3.44	\$2.79	\$2.36

2014A FCF includes \$31MM payment from Gesca.

Ultra Flex deal expected to close at the end of f2015.

**Financial Data as at: July 31, 2015**

Shares Outstanding (mln)	78.0
Float (mln)	71.8
Market Value (mln)	\$1,409.2
Net Debt (mln)	\$306.6
Preferred Shares (mln)	-
Common Equity (mln)	\$936.0
Net Debt to Capital	24.7%
BVPS / Price/BVPS	\$12.00/1.5x
ROE 2015E	20.9%
Dividend/Yield	\$0.68/3.8%



Source: Thomson Reuters

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## Stock Rating: Outperform

## Risk Rating: Above Average

Industry Rating (Media): Market Weight  
 (NBF Economics & Strategy Group)

# Transcontinental Inc.

**COMPANY PROFILE**

Transcontinental is one of North America's largest commercial printers (#1 in Canada) with operations primarily in Canada and, to a lesser extent, in the U.S. The company is a leading publisher of weekly newspapers & door-to-door flyer distribution. It acquired U.S.-based Capri Packaging in May 2014 to add a third leg to its platform, with the purchase of Ultra Flex Packaging (likely closing October 2015) helping to bulk up the contribution from Packaging. Rémi Marcoux, founder, controls 16.5% equity and 71.1% votes.

**INVESTMENT HIGHLIGHTS****Flexible packaging represents the company's third leg of growth.**

On March 11, 2014, Transcontinental announced that it had entered into a deal to acquire U.S.-based Capri Packaging, a supplier of printed flexible packaging for US\$133 million. Capri was a subsidiary of Schreiber Foods, a US\$5 billion employee-owned dairy company in Green Bay, Wisconsin. Important to note is that Schreiber, which accounts for 75% of Capri's revenues, signed a 10-year deal to secure Capri as a strategic supplier of printed flexible packaging. At the time of the acquisition, Capri generated revenues of approximately US\$72 million and EBITDA of US\$17 million, implying deal multiples of 1.85x revenues and 7.8x EBITDA. The move into flexible packaging didn't come as a great surprise, as management communicated in the past that it was exploring a third leg of business which would capitalize on Transcontinental's core competency in batch printing.

On Sept. 1, 2015, Transcontinental announced that it had entered into an agreement to acquire Ultra Flex Packaging (UFP) for US\$80 million in cash, with an undisclosed earnout subject to the achievement of certain financial metrics. Based in Brooklyn, NY, UFP is a supplier of printed flexible packaging, laminator, and converter of packaging solutions. The deal is expected to close sometime in October 2015. UFS generates US\$72 million in revenues and US\$12 million of EBITDA for a margin of 16.7%. The deal multiples appear to be 1.1x revenue and 6.7x EBITDA ex-earnout.

While acquisitions in the packaging space do not come cheap, the addition of UFP will help bring the contribution from Packaging to about 9.5% of pro forma f2015E revenues and 9.8% of EBITDA. An eventual re-rating of the stock will come and be properly justified following more packaging acquisitions which will steadily increase the segment's contribution to EBITDA beyond 10% post-UFP.

**Consolidated community newspapers in Quebec.**

Concurrent with Q4/13 results, Transcontinental signed a deal with Sun Media to acquire the latter's 74 community papers in Quebec and related web properties. The transaction closed on June 1, 2014. The purchase price was \$75 million and involved \$75 million to \$80 million in revenues. As part of the deal, the company also agreed to printing some of Quebecor Media's magazines and direct marketing materials. The purchase and new mandate were expected to ultimately represent \$20 million of EBITDA, entirely derived of synergies which were fully realized by the end of Q3/15. We were pleased to see this consolidation, with Transcontinental no longer having to battle Sun Media in different parts of the province, something which had proven to be a rather costly exercise for both parties.

**Sold most of consumer magazine platform to TVA for \$55.5 million.**

On Nov. 17, 2014, Transcontinental entered into an agreement with TVA to sell the latter most of its consumer magazine platform and related websites. The transaction closed on April 13, 2015. The deal multiples appeared to be 0.6x revenues and 7.4x EBITDA, which suggested an attractive monetization of assets which weren't getting more than a 3.5x valuation.

**Strong free cash generation allows for evolving M&A and annual dividend growth.**

At the end Q3/15, Transcontinental's leverage was 0.8x. We forecast PF leverage of 1.2x in f2015 due to UFP, with this dropping to 0.6x in f2016E and 0.3x in f2017E in the advance of further acquisitions which we look to materialize to grow the Packaging platform.

**RISK FACTORS**

They key risk facing Transcontinental is evolving secular pressure in print and publishing, with material changes also taking shape across the advertising landscape. As it seeks to gain critical mass in its new third leg (i.e., Packaging), it remains to be seen how quickly opportunities arise and at what valuations it will be able to transact.

**VALUATION****Transcontinental is rated Outperform with a \$20 target**

Our target is derived from the f2016E metric in our NAV, with an implied EV/EBITDA of 4.5x f2016E. Notwithstanding recent gains, the stock continues to trade at a discount to peers.

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# Notes

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# Notes

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